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**POPULISM AND DEMOCRACY: AN
ECONOMIC PERSPECTIVE**

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PREFACE

The results of the Brexit referendum in the United Kingdom, the continuous debates in the national and in the European parliaments and, consequently, the new wave of political parties that are more consecrated to their “*populus*” have helped the populism to rise and to become one of the most discussed theme in the European Union; the results of the recent European elections though, defused it since the populist parties still represent a minority in the Eurozone but surely it can be said that they are facing an unprecedented rise and are obtaining more and more consensus among the people, making it a central theme of discussion.

The abundance of information about such theme, the continuous debates, its evolution and its dynamics have brought this argument to my attention and I was interested in finding more about this topic; trying to understand if a possible economic connection could be provided for the populism phenomenon was surely stimulating, also because it represented something different with respect to my classic studies.

The final aim of this thesis is to try to provide an economic explanation to the rise of populism, try to understand if economic variables can be utilized in order to predict it, to see if they can be considered as objects of interest in order to explain such actual and complex phenomenon.

I would like to thank my mentor Professor Nicolò Antonio, Professor Bertoni Marco, who gave me an enormous help with the empirical part, my girlfriend Silvia for her constant support and everyone else who has patiently waited for me to conclude my studies.

ABSTRACT

The title of this thesis, “Populism and democracy: an economic perspective” explains the final aim of this study, that is the provision of an explanation to the complex phenomenon that is populism; it aims to focus on an economic interpretation of populism rise by looking at the other works in the literature and by adding its own piece of analysis during the empirical part in order to reach this result.

The thesis is divided into three main chapters where the topics are discussed from different points of view; the first chapter introduces the concept of populism, it provides a definition for such phenomenon and it describes the different elements that characterize it, it describes the main differences between the populism presents in Latin America and the one in Europe as well as for the differences between the left-wing and the right-wing populism. It continues with a specification of the supply side and the demand side of populism with the description of the variables that play a role in these two sides and, finally, it presents an explanation, based on the review of the literature, to the rise of populism , explained at the light of different perspectives, from the crisis of the democracy to the cultural backlash thesis, from the Durkheimian approach to the Downsian approach.

The second chapter is entirely focused on the economic determinants of populism; it is based on a review of the literature in order to consider what was already discussed but compared with different economic factors such as the economic insecurity, the globalization (and its multiple faces), the frustration and the relocation effect, the policy strait jacket and the unemployment rate. From this chapter it is possible to understand that populism is an extremely complex phenomenon and it can’t be described in simple terms since there are a multitude of factors, both economic and not economic, that are involved.

The last chapter represents the empirical part of the thesis with an analysis done in order to find an economic connection between the rise of populism (measured, in this case, as the lower trust toward the European Union) and an economic indicator of inequality, the Gini index, a relationship that, according to the hypothesis, is expected to be negative; the chapter provides such analysis and it continues by adding dummy and control variables to the model in order to provide more robustness and in order to have a better fit. It is found that there is a statistically significant negative relationship between the Gini index and the trust toward the European Union, a result that confirms the initial hypothesis. The chapter concludes with a brief description of the limitations of the analysis and of the study and a brief summary about the results and the final thoughts.

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INTRODUCTION

Was it possible to detect a common trend during the political elections in Europe in the latest years? Is it possible to see that the resentment against the EU is the common factor for such new situation?

The latest years were characterized by the uprising of new players in the political arena, namely the populist parties. The rise of populist parties was progressive and very robust and today, in 2019, they occupy a considerable percentage of share in the political arena; these examples in Europe can be found in the results of the recent European elections with the winning in Italy of Matteo Salvini's "La Lega" with the 34% of the total preferences, (Horowitz J., 2019) with the Brexit party created a few months before the European elections which obtained the 30,5% of preferences in Britain and with the Front National in France which gained the 23.31% of the preferences, just to quote a few examples.

Populism is a phenomenon which can be analysed on many dimensions, on the political side because of the presence of a physical party in the political arena and on the economic, social and cultural side because of their policies and their programs. The economics of populism, as it is intended in this paper, is concerned with the proposal of economic reforms that are inefficient in the long period and that are characterized by an aspect of "the people vs the elite"; the economic reforms proposed by the populist parties include also the concealment of the cost that will be sustained by the next generation of politics.

Populism is a phenomenon that can be found in the European Union but, historically, it obtained its greatest importance in Latin America in which different States were and are administered by governments entirely formed by populist parties or by leaders such as Hugo Chavez in Venezuela and Juan Domingo Peron in Argentina just to cite a few.

The form of populism in Latin America, which is different from the one in Europe (as we will see later in this document), is mainly characterized by the objective to overcome the fiscal crisis with the reduction on the internal and foreign public debt trying to spare the flourishing sectors of the economy from sacrifices.

Historically, the different populist regimes in Latin America, have experienced such phases during their intervention:

-Phase 1: where their macroeconomics policies were successful, with many controls posed on the inflation, a phase characterized by a growth of the output, real wages and employment rates and with demand expansion and low level of inventory;

-Phase 2: it runs in bottleneck as a result of the internal growth of the demand and a lack of foreign exchange; now the low level of inventories became a serious problem and price realignment and devaluation becomes necessary, inflation rises but the wages rise proportionally;

-Phase 3: the inflation rises rapidly, the foreign exchange gap leads to the demonetization of the economy, the budget deficit deteriorates because of a decline in the tax collection and of the increase in the subsidy costs with the result of a fall of the real wages and the instability of the policies adopted;

-Phase 4: a stabilization happens under a new government, usually with the enabling of an IMF procedure resulting in the real wages at a significantly lower level than the beginning of the experience; the fall of the real wages happens because of the relocation of capitals. (Edward S., Dornbusch R., 1990)

The most common findings of such experiences of populism resulted not in a total collapse of the economy but the progressive deterioration of the living conditions of the social classes supposed to be the beneficiaries of the populist reforms.

The rise of populism in Europe has reached its exploit in the current years during the European election where the populist parties throughout the Continent obtained a consistent percentage of voting shares as we have said before; despite this progressive rise the populist parties weren't able to conquer the vast majority of the European seats because circa the 75% of the voters still support the EU but their increasing power and presence can't be denied.

The common lines of these populist parties are formed by the support to anti-immigration policies, the promotion of nationalism, the blaming of globalization and the promise to return to a precedent era (Horowitz J., 2019); the actual political arena of the European union is changing, shifting from a classic right-wing and left-wing dualism to a populist and non-populist dualism.

The European union was in a state of turmoil since the financial crisis of 2008 which increased the social and economic inequalities and brought additional division within the Continent, between the north and the south, the rich and the poor, a situation which was severely worsened by the immigration crisis which exploded in 2015. The combination of these factors contributed to the rise of such populist parties which, progressively, were able to gain more and more importance in the political arena.

One of the most recognizable example of their increasing importance in the European Union can be found in the winning of the 2016 referendum in UK, which leads to the Brexit case; according to a study conducted by the Guardian in November 2018, in Europe one in four European votes populist. (Barr C., et al., 2018).

Populist parties enjoyed success in Norway, Switzerland and Italy in the 1990s, but we have to wait until the turn of the century to see a real proliferation of the populist side, from the Netherlands to France, Hungary to Poland.

The anti-austerity Syriza took 27% of the vote and then 36% in the successive Greek elections as a consequence against the austerity policies imposed by the European union; Ukip, as we have already said, lead Britain to its Brexit vote and Marine Le Pen during the latest presidential election in France, obtained the 33% of the votes. (Barr C., et al., 2018)

The financial crisis that started in 2008 created room for populism in the countries in which the population suffered the most from such financial distress; the case of Italy and Greece suggested so. In Italy, with the rising inequality and the higher unemployment rate in an already distressed situation, and in Greece , with the profound crisis of the sovereign debt, there were the strict austerity policies imposed by the European Union; these countries can be considered as an example because the results obtained by the populist parties in such States can be seen as a sign of revolt against the EU. (Blyth M., Hopkin J., 2018)

Populism, consequently, is a complex, multi-faced problem which cannot be described in only one dimensions; surely there are many factors that can provide a useful interpretation for such result and the economic variable should be considered as one of the most, if not the most, important factor to describe the rise of such phenomenon.

CHAPTER 1

1.1 DEFINITION

Provide a definition to the concept of populism is extremely difficult and complex; this term can be used in different context and the definition will vary accordingly; the term derives from the Latin word *Populus* and it refers to the accurate and fast serving of the popular needs. In a social science context Populism can refer to the common practice of the policy makers to follow the short-term popularity and pressure of the population with no regards of the long-term objectives and values that should be considered as fundamental factors for a policy-makers. (Csaba L., 2008)

The most common utilized and known definition of populism was provided by the political analyst Cas Mudde in 2004 who defined it as

“a thin-centred ideology that considers society to be ultimately separated into two homogenous and antagonistic groups, the pure people versus the corrupt elite, and which argues that politics should be an expression of the general will of the people”.

(Mudde C., 2011)

The definition provided by Cas Mudde shows some useful characteristic that can be used in order to describe briefly the idea of populism:

- the division of the society in two groups, the rich elite and the “normal” people;
- the situation of conflict between the two mentioned groups where the people try to fight against the system ruled by the elite;
- the idea of the re-acquisition of the sovereignty, considered to be vanished throughout the years because of the government imposed by the elite;
- the idea that with the re-acquisition of the sovereignty by the people there will be finally a true democracy and a true expression of the will of the people.

The focal point of populism, as we can see, is the *Popolus* itself, which is considered as a social group which has seen its power and its rights vanished throughout the years because of the presence of a strong elite which, with the use of intermediaries, foreclose the people the possibility to really possess the key to their decision and to their sovereignty. (Kriesi H., Pappas T.S., 2015)

The antagonistic characteristic that was mentioned before can be considered on a symbolic view because the concept itself provided by Cas Mudde refers implicitly to the elite as the “corrupt” group and to the people as the “poor, the suppressed” group, a division which is

particularly important if we move along the concept of exclusion/inclusion; the antagonistic characteristic of such categories make the belonging to one of this group an implicit exclusion from the other one. (Kaltwasser C.R., Mudde C., 2013)

If we want to consider another definition of populism, we can cite the one provided by Kurt Weyland who defines populism as

“a political strategy through which a personalist leader seeks, or exercise government power based on direct, unmediated, un-institutionalized support from large numbers of mostly unorganized followers” (Mudde C., 2011);

this definition, even if different in certain aspect from the one provided by Cas Mudde present an important point in common, the concept of a “direct, un-institutionalized power”.

1.2 THE ELEMENTS OF POPULISM

The broad view of populism encompasses some characteristics that help creating a framework for its general description: following the concept of economics of populism that it is utilized for this study (ed. p.2), we can describe some relevant economic factors:

- initial conditions: the populist leaders focus their attention on the economic indicators, they have a dissatisfied behaviour toward the results and the policies adopted by the current administration (the so-called elite); they strongly believe that by following the idea of populism (that is, the re-acquisition of the sovereignty) the performances would be better;
- no constraints: their vision considers as totally negative the presence of any type of constraints with regard to the macroeconomic policies and the economic reforms adopted by their country; they believe that the removal of these barriers would create a growth trend in the economy;
- policy prescriptions: consequent to what it has been said before the main points of populism are the redistribution of the income, the reactivation and the reconstruction of the economy of the country. An example of these points might be the increase in the real-wages without a consequent increase in the prices of the product; the reconstruction of the economy is done in order to save on foreign exchange and to sustain the increase in the real-wages. (Edward S., Dornbusch R., 1990)

Moving on with the other characteristics of populism that we can find in the definition of Mudde (ed. Ch.1, p.6) it is worth citing the democratic idea of representation; according to the populist vision, the policy-makers should have a direct connection with the people without the presence of any type of intermediaries, a form that can be described as an immediate identity

between the ruler and the people which resolves in an immediate form of representation or, even more precise, and embodiment where the policy-makers can give voice to the will of the individuals. Another important characteristic which is directly linked to the one above mentioned, is the general will of the people; public opinion for a populist party is vital and the consensus or the reactions should be monitored through opinion pools. (Abts K., Rummens S., 2007) Populism is a very complex concept which also include factors such as the anti-establishment, authoritarianism and nativism which describe in different ways the already cited antagonism against the elite and the current financial, political and economic institutions. (Inglehart R.F., Norris P., 2016)

1.3 POPULISM IN EUROPE AND IN LATIN AMERICA: THE MAIN DIFFERENCES

With the phenomenon of populism an important differentiation has to be done between the populism typical of Latin America and the populism typical of the European Countries. They both start with the central importance given to the people, seen as the true and legitimate source of political power but they still present some differences.

First of all, populism is different from the point of view of its relative importance; in Latin America populist parties are chosen by the majority of the population during the election pools while in Europe the populist parties obtain, despite their growth, only a small percentage of the overall share of votes (Mudde C., 2011). Another major difference between these two visions of populism can be seen in the main focus of the populist policies; the Latin American populism puts its attention on the economy while the European populism is focused more on the national identity. The populism in Latin America, by focusing its policies on the economy, is characterized by: the attempt to operate a redistribution of the income, government spending on job policies, the reduction of the inflation risk and the deficit finance. (Mudde C., 2011). Even if the programs effectively done by the various governments were different on many points the convergence in the form of Latin America populism is found in the opposition and the negativity toward the neoliberal economy.

The concept of economics of populism in Europe instead, is mainly focused on the privatization, the deprivation of power from the political parties or associations, the reduction of importance of the interest groups and of the intermediaries between the people and the policy-makers. Here we can still find a negative behaviour toward the neoliberal economics because of the strong nationalism effects embedded within the different States of the European Union; the neoliberal economy is seen as a threat, a potential entry structure for

foreign dominant countries and, consequently, the nationalism and the populism wing are committed to fight against such menace.

The phenomenon of populism in Europe is related with the national identity of the countries with the distinction between two categories, the “natives” and the “aliens”; this results in a dynamic of favouring policies for the ingroup (the natives) and doing propaganda against the outgroup (the aliens) which can be considered as the ethnic minorities, the immigrants, the foreigners and the refugees. (Mudde C., 2011)

The concept of identity, instead, is different in Latin America since there isn't a pure national identity in its different States; these States are formed by a continuous interaction of cultures, between themselves and between them and the European countries, and, consequently, the phenomenon of determine a national identity is less strong. The result of this dissimilarity can be found in the different nature of populism which is mainly present in these two worlds since in Latin America there is a populism inclined to the left-wing side while, in Europe, the various populist parties are mainly on the right-wing side. The focus of Latin American populism, with respect to the concept of identity, is based on the pro-indigenous campaign with the characterization of the mixed nature of the national identity of the States. (Mudde C., 2011). In particular, even if there is a lack of a pure national identity, the strength of the Latin American populism can be found in the ideology of the “Americanismo” adopted mainly by Morales and Chavez; this idea made it possible to reunite under the same umbrella different ethnic and social groups overcoming therefore the problem of defining a pure national identity (Mudde C., 2011).

Following this characteristic, it is possible to provide another classification for populism; the inclusive populism and the exclusive populism. The populism of the Latin American states is the inclusive one; it starts with the inclusion of specific social classes in the reform objectives of their economic programs, it utilizes the “Americanismo” phenomenon in order to group together a wide number of different ethnic and social classes (that is all the “normal” people of the country) in order to fight against the establishment with the final aim to defend the States from foreign countries that are considered to exploit or to make such areas underperforming. (Mudde C., 2011)

The form of populism typical of the European States, instead, is the exclusive one; this difference can find one of its sources in the radical different life conditions of the two areas in which the respective populations live. If in Latin America there is a fight in order to obtain the conditions necessary to live a good life, in Europe these conditions are (in majority)

already obtained and, consequently, the ultimate goal is to protect the actual States; the threats to this equilibrium are usually identified by the populist parties with the immigrants, the foreigners, the refugees and the political parties (or the establishment in general) that support policies in their favour since they are seen as a potential, disruptive element for their democracies. As a result, the exclusive characteristic above mentioned is translated in the exclusion of certain groups from the planned policies of the populist parties; as we have seen before with the division between “natives” and “aliens”, this populism is characterized by a widespread sentiment of national preference also because, at the light of such populist parties, the immigration phenomenon with its correlated causes and consequences, is seen as menace. It is worth saying that the exclusive populism typical of Europe still presents a characteristic of inclusiveness within itself; this inclusiveness can be found in the natural objective to include a vast majority of people/voters together in order to defeat the establishment and to propose economic and social reforms that are closer to the people themselves. At the end, though, this inclusive characteristic is turned into an exclusive one since the proposed reforms are done in order to protect the country against the outside groups which are identified as a threat. (Kaltwasser C.R., Mudde C., 2013)

We can conclude this paragraph by saying that the populism of Latin America can be described with this sentence “including the poor” while the populism in Europe can be identified with “excluding the Alien”.

1.4 THE DIFFERENT FORMS OF POPULISM

The phenomenon of populism, as we have seen before, is a multifaced thing, with many interpretations, with different visions and different characteristics, objectives and priorities. One of the most useful categorizations for the populism ideology is the division between the right-wing populism and the left-wing populism.

The main difference between the left-wing and the right-wing populism can be found in the respective importance they give with regard to egalitarianism; the left side is more focused on proposing a model where all people have the possibility to have access to the same resources, to the same possibilities, resulting in a set of reforms which aims to eliminate any social inequalities whereas the right-wing populism identifies the inequalities between the people that belong naturally to a certain State (the natives) and those who do not (the aliens). (Mudde C., 2011)

The economic aspect is particularly important for the left-wing populism; structured on the class-based division of the society the left-wing populism aims to eliminate the economic

inequalities at the base of such division while the right-wing populism gives less attention to the economic aspect of the operation; they believe that the current economic reforms based on the social-democratic ideology are appropriate, they base their economic programs on the increase of the welfare state, on the increase of the protectionism and, in general, they demand for more social benefits but only for the "nationals". If the focus of the left-wing populism can be found in the economics, the focus of the right-populism can be found in the socio-cultural issue; as we have said before, the anti-immigration policies, the protection from the foreigners and from foreign model are the central point to such political programs which aim at the re-establishment and the protection of the national cultures. (Silvia B.C., 2017)

1.5 THE TWO SIDES OF POPULISM

To better understand the phenomenon of populism it is necessary to explain the supply side of populism as the presence of populist parties in the political arena and the demand side as the voters and their characteristic or the variables that can have importance and can influence their final decision.

We are going to provide a better insight in the next two paragraphs.

1.5.1 The demand side of populism

With respect to the demand side of populism we refer to the behaviour of the voters; their behaviour is affected by factors such as the economic insecurity, the lack of trust toward the traditional political parties and establishment but, most importantly, their behaviour is linked with the abstention based entry space as theorized by Guiso ,Herrera, Morelli and Sonno in "Populism: Demand & Supply", 2018. The lack of trust toward the traditional parties creates an abstention-entry space in which the voters will not support anymore the traditional establishment, and this gives the possibility to the new parties, in this case, the populist one to rise. This, in combination with a condition of economic insecurity, can lead people to change their votes in support to this new parties.

The variables that influence voters' behaviour in the study of Guiso et al. are: the economic insecurity which can have different forms such as the unemployment, the financial distress, the exposure to globalization of low-skilled workers, the competition in labour market due to immigration, and the trust toward the traditional politics and institutions. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

Trust plays an important role; trust can be identified as something independent from the achievement of a specific output or, generally, it is not conceived as the unconditional support

to a specific political party or a specific political actor, but it refers mostly with the degree of certainty/uncertainty that the population has about its future. (Li A., 2018)

Political trust is seen therefore as the capability of the actual ruling class to manage the different situations and how it can be able to solve the difficulties; in evaluating the level of trust the population may adopt performance measures that are more pragmatic such as the capability of the government to cope with crises, their conditions after the adoption of the proposed political strategy, in general measured on an individual or on an economic and social level. Just to propose an example the political trust of an individual may be greater toward the current ruling class if, in a situation of financial distress, it received the support from governmental agencies, and it will be lower in the opposite case. The concept of trust is important since it relates with the abstention-entry space mentioned before and the behaviour of the voters at the ballot boxes.

The voters' patience is important too; the voters which have preferences in the short-term results are more likely to vote for populist parties while voters with a preference on long-term results are less likely to support them, with or without considering the resilience of the institutions and, consequently, only voters with intermediate patience base their choice on the resilience of institutions. If these voters live in countries with established democracies and strong institutions, they are more willing to elect a populist party since they anticipate that the presence of strong institutions will mitigate and limit the potential negative consequences of the populist measures. (Chesterley N., Roberti P., 2018)

1.5.2 The supply side of populism

The presence of populist parties in the political arena is the consequence of certain factors; the economic insecurity, the break of trust toward the democracies and the current form of government, the weakening of the other political parties which normally would include most of the voters. The economic insecurity variable is surely the most important one because it encompasses a direct effect and an indirect effect; the direct effect is related with the unstable economic conditions of the voters which may vote for the populist parties because of the attractive proposes, because of the promises of a redistribution of the resources in a way which is more than favourable for them. Secondly, the indirect effect is related with the consequences of the economic insecurity; the populist parties attribute the causes of the economic uncertainties to the current political parties and, in general, to the current establishment, creating a climate of distrust toward their political adversaries.

The populist parties are not necessarily directly affected by these situations but surely, they benefit from this climate; the political distrust and the desire for change creates a disappointment with respect to the traditional parties and create room for the entry and the rise of new parties (the populist ones). (Guiso L, Herrera H., Morelli M., Sonno T., 2018,²)

In a study of 2018 by Guiso, Herrera, Morelli and Sonno titled “Populism: demand & supply” the determinants of the supply side of populism were identified in:

- presence and entry: whether and when to entry in the political arena is determined by the level of economic insecurity, the exposure to globalization and, last but not least, by the strength of the political opponents;

- orientation choices: the second choice regards the political orientation that the populist party will decide for itself, a choice that, ultimately, will result in a decision between the left-wing or the right-wing populism. This choice is mainly influenced by the relative entry space which reflects the main orientation of the electorate and by the main sources of the economic insecurity conditions;

- policy platform choice: in this case both the left-wing and the right-wing populism will propose a set of reforms mainly focused on the short-term orientation having as main objectives the anti-establishment policies, the protectionism and the concealment of the long-term costs. The anti-establishment variable can be seen as the diminishing in the political corruption, the protectionism may have the form of deregulation, anti-immigration policies, redistribution of wealth and economic intervention and the concealment of long-term costs can be seen as the position taken with respect to issue like the environment and the international security or peace-keeping policies. (Guiso L, Herrera H., Morelli M., Sonno T., 2018,²)

The presence of populist policies in general, considering also the deviation of the traditional parties to a more populist vision, can be influenced by many factors such as the cost of bribing, the percentage of corrupted politicians and the polarization of the society.

When the cost of bribing is low or, conversely, when it is more difficult to detect, the rich elite has a greater incentive to spend in order to influence the decision of the politicians and, consequently, when the percentage of corrupted politicians in a society is greater there are more possibility to have signs of populist presence; also, when a greater discrepancy between the median voters and the rich elite is present, the political parties are more likely to convert

to a populist vision in order to attract that large majority of the voters. (Acemoglu D., Egorov G., Sonin K., 2012)

The populist would like the institutions to be as weak as possible in order to enter, to reduce the costs of seizing them; the populist side may also have the incentive to commit to create independent institutions in order to convince the uncertain voters (which are the voters with an intermediate level of patience) that they will not be able to seize the control and so they represent the worth choice for the country (Chesterley N., Roberti P., 2018)

1.6 WHY IS POPULISM ON THE RISE?

The recent years has shown a trend of increasing voters' shares allocated to populist parties within a lot of European States; during the last European pools in France Marine Le Pen's FN obtained the 23% of preferences and Matteo Salvini's Lega obtained the 34% of votes in Italy, just to quote the two most important examples. These results point the attention to the consequences behind this rise. (Horowitz J., 2019)

It seems that populism and its consequent rise may be connected with the presence of a crisis in the Member States; this crisis is a multi-faced phenomenon because it encompasses the economic dimension, the cultural dimension and the sociological dimension. Everything started in 2008 with the financial crisis which put many countries of the world (and of course the ones of the European Union) in a situation of financial distress. The most utilized economic reforms adopted in order to fight against such problem was the austerity which ultimately created greater economic and social inequalities, resulting in an increasing sceptical sentiment toward the European Union and the integration of the Member States. With the proliferation of such conditions the rise of populist parties can be justified because they represented the voice of the defenceless people against the sinister politics and establishment, identified in the politicians, banks, industrialists, financial institutions and European institutions. (Kriesi H., Pappas T.S., 2015)

This economic crisis presented three different aspects; a competitiveness crisis which caused the slowing down of the economic performances, a banking crisis which caused a solvency and liquidity problem and the sovereign debt crisis. These three different aspects didn't happen in a uniform way throughout the European territory due to the specific characteristics of each single Member States. (Kriesi H., Pappas T.S., 2015). The creation or the rise of populist parties was more favoured in the countries in which the consequences of the economic crisis were more pronounced such as in Italy with the creation of the Five Stars Movement in 2009, the rising of the FN in France which passes from a 6,3 % of consensus in

the 2009 to a 33% of consensus in 2017 during the last presidential election; in general, the severe consequences of the economic crisis disrupted the traditional parties and politics in the Member States, giving the possibility and the space to the populist parties to proliferate.

The rise of populism in Europe has also other variables that should be considered in order to provide a better insight of the actual situation; in Europe there was the presence of the so called “China effect”, which can be considered as the effects of globalization on the Member States of the Union. The “China effect” refers to the situation in which the more industrialized areas of the European Union suffered from the competition coming from the Asian countries where the work force presents a lower cost which caused a consequent delocalization; the threat represented by the “China effect” resulted in lower wages and greater uncertainty of the job which turned into the presence of more nationalistic sentiment in the affected areas which allowed populism to rise. The consequences could be even harder if these perceived effects are not fought properly by the actual government because of the presence of EU directives or other EU policies, generating a climate of distrust not only toward the current ruling class but mostly against the European Union itself. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

The remaining three factors that are typical of the Eurozone and that are very important in order to describe the phenomenon of populism are the relocation effect, the policy strait-jacket and the frustration effect.

The relocation effect is indeed the situation that was described before; the presence of a real threat in the competition coming from the Asian countries put a lot of insecurity in the western industrialized areas of the Eurozone with the firms that decide to relocate in the Eastern side of the EU because of its lower costs and this created a positive correlation with the rise of populist policies in those areas. Considering this variable, it is important to point the attention to a specific situation which is the different influence that this factor had on the Eurozone; as we know the Eurozone is a wide and differentiated region and, consequently, there are areas in which the relocation effect was less strong. The diminishing importance of this factor is located in the Eastern zone of the European Union where the wages and, in general, the working conditions and labour costs are more similar to the Asian countries than to the Western Zone of the EU, resulting in a less strong presence of such factors in those areas. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹) The relocation effect is also less strong in non-eurozone countries because they have the possibility to counter the loss in competitiveness with a devaluation of the exchange rates and consequently to suffer less from such situation.

The policy strait-jacket, instead, refers to the limited space given to the Member States of the European union in terms of fiscal policy and the absence of an independent monetary policy to counter country specific risk or problems. This independency would have been particularly important in situation of financial distress, such as the financial crisis that started in 2008 and that brought in economic distress the majority of the European States, where the presence of an ad hoc monetary and fiscal policy for each country would have been required in order to have a cyclical policy response. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

The Frustration effect, instead, can be linked with the final decision that the voters do at the ballot boxes; the abstention from the votes or the preferences given to a new political solution (e.g. the populist party) are influenced by the incapability of the actual ruling class to manage the situation, to propose a real solution to the financial distress and, under this conditions, voters are more likely to embrace the ideology of “Exit from the EU” (which is the forte of the populist policies) without considering the secondary aspects and the potential negative consequences of such actions. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

These three different factors are closely correlated one with each other; for example, the frustration effect is stronger in the countries within the European Union where there is the policy strait-jacket: the limited space in terms of monetary and fiscal policy given to the current ruling class and the negative economic conditions in which each country found itself provided a fertile ground for populist parties to convince the voters to devalue the traditional political parties; these aspects were even more important in the most distressed countries such as Italy and Greece which suffered the most the austerity imposed by the European Union and this ultimately resulted in the increasing importance, in the aftermath of the elections, of populist parties such as Lega and Five Star Movement in Italy and Syriza in Greece.

The combination of these three factors is extremely important and it explains partially the rise of populism in the European Union; if we consider a worker that is located in one of the area that suffered the most from the relocation effect ,which ultimately resulted in a major degree of economic uncertainty for the losers, and, in addition to this, he sees the inability of its government to solve this situation due to the policy strait-jacket, it is more likely for him to being affected by the frustration effect during the election, resulting in a rise of consensus toward the populist parties.

All the previously considered factors are equally important in order to describe the phenomenon of populism in Europe; it is necessary to say that the rise of populism can't be linked with just a couple of factors taken in isolation because it is a complex phenomenon

where a high number of different factors play their role both in isolation or in combination with others, making its analysis highly difficult.

1.7 THE CRISIS OF THE REPRESENTATIVE DEMOCRACY

In addition to the already cited causes and factors it is important to say that the rise of populism in Europe is also linked with a growing trend of crisis against the form of representative democracy, the instrument which connects the will and the voice of the people with the policy making aspects. The decline of the representative democracies may have different explanations that vary from country to country; considering the Western Europe the crisis may be linked with the inability of the traditional parties to meet their voters' interest resulting in a declining of party membership and in the absence of identification with the political proposals but the crisis can be explained also with the attribution of responsibility of the economic conditions to the current establishment and to the political forces that were on the political arena at the time of the crisis and this, in combination with their incapability to meet the voters' preferences, caused the decline of the traditional parties in Western Europe. (Kriesi H., Pappas T.S., 2015)

Another explanation is the one provided by Abts and Rummens in their study titled "Populism versus Democracy", 2007 in which democracies are defined as the combination of a democratic pillar, stating that the political legitimacy requires the supreme authority to be embedded in the people and, with the process of democratic representation, it is possible to satisfy the will of the people and the liberal pillar which claims that the supreme authority resides within the law.

Consequently, the rise of populism can be explained as the desire, proposed by the populist parties, to realign the balance between these two pillars which, according to them, were out of balance for too much time with a disproportion toward the liberal pillar which resulted in politicians uninformed about the real will of the people and with the consequent threat to the sovereignty; the natural consequence is to give the power back to the democratic pillar which is based on the re-establishment of power to the people. (Abts K., Rummens S., 2007)

The situation in the Central and Eastern Europe was slightly different because there was the absence of consolidated parties in the political arena; this lack of consolidation resulted in a high level of volatility during the election and, with the distresses caused by the economic crisis, the absence of a strong coalition provided a great opportunity to the populist parties to take their place in the political arena as well. The dissatisfaction caused by the economic reforms and performances of such States, in combination with the high volatility of the

traditional parties, created the optimal conditions for the birth of populist parties which proposed themselves as the voice against the elite. (Kriesi H., Pappas T.S., 2015)

It is worth saying that the crisis of the representative democracies was not caused by the economic crisis of 2008; they were presenting problems even before those events but the dramatic consequences of the economic crisis put a lot of attention on those political models and, consequently, they highlighted their limitations and their responsibilities, resulting in the consequences that we are analysing in such document.

Another interesting study published in 2013 by Wolfgang Merkel titled “Is there a crisis of democracy? Can we answer the question?” proposes a different vision where the crisis of democracies and, consequently, the rise of populism are seen as a collective process of accumulated crisis of different types put in a logical order. This sequence is presented below:

- Economic crisis which shows its effects on the economic cycle, on the growth of a country and on the correlated themes which brings to a →
- Rationality crisis which encompasses the failure of the traditional administrative and political department with a subsequent presence of Welfare State deficiencies which bring to a →
- Legitimation crisis which can be seen as the lack of support from the majority of the population to the traditional form of democracy which brings to a →
- Motivational crisis considered as a lack or as a declining trend toward work ethics policies or normative order of democracy.

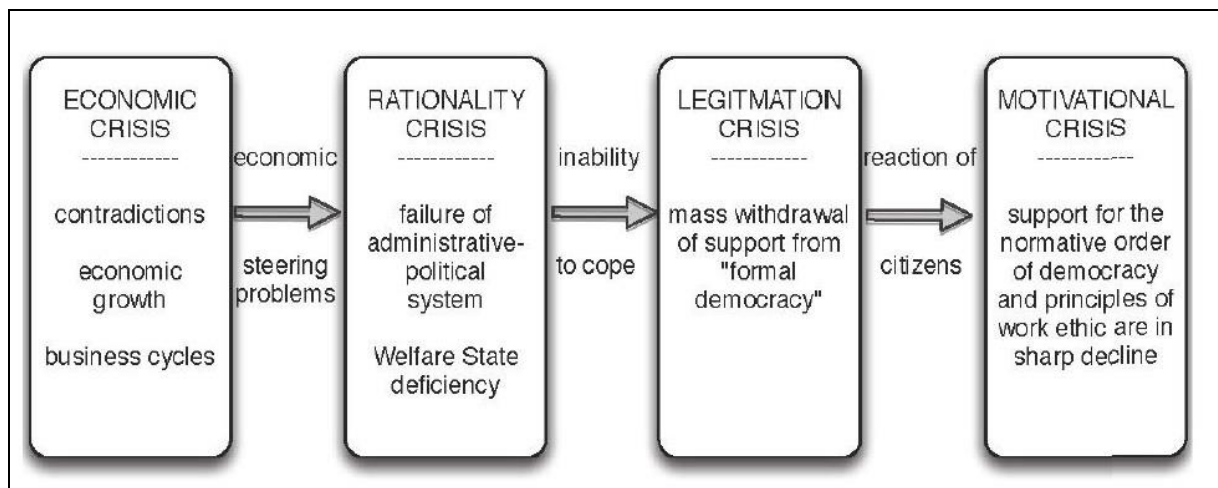


Figure 1: (Merkel W., 2013)

These four different types of crisis may be considered as the same face of a very complex situation in which it is extremely difficult to provide just one explanation; other factors that contribute to the crisis of the traditional democracies are the de-legitimation of the political

authority, the increase in political participation, the disaggregation and fragmentation of interests and the increasing expectation and overload of interest of the voters. (Merkerl W., 2013)

1.8 THE CULTURAL BACKLASH THESIS

The cultural backlash thesis tries to explain the rising of populism on a social and psychological perspective; according to this theory the populist parties are majorly voted by the older generations which seeks a political representative that protects the classic long-term vision and that list the respect and the conservation of the traditional, old values as a primary point in his political agenda.

In the recent period a more progressive vision of the world has taken place, more respect and more rights are attributed to the different minorities and an ongoing process of integration, both on an economical side but also on a social side is happening; this created consequently a major polarization between the older and the younger generation where the former feel themselves as the last point on the priorities in the political agendas in the different States. The populist parties, by proposing themselves as the protector of the classic and traditional values of the country were able to intercept this part of the population alongside with other groups. (Inglehart R.F., Norris P., 2016)

Additionally, the study of 2016 by Inglehart and Norris titled “Trump, Brexit and the Rise of populism: Economic-have nots and cultural backlash” provides a very interesting depiction about the major characteristic that the voters of populist parties have:

- age: a stronger support to populist parties is provided by the older generation, confirming the gender gap;
- education: it was shown that the majority of supporters of populist parties comes from the least educated sectors of the society;
- religiosity: the greater support to populist parties comes from people which present this characteristic as it is seen as a factor which determines the traditional values of a country;
- minority: less support to populist parties was provided by the minorities of a society such as ethnic minority just to cite one;
- support from the petty bourgeoisie: the populist parties, even if they obtain support also from professional workers and managers, are mostly diffused among this social class, like small proprietors;

- location of the voters: this study shows that most of the support given to populist parties comes from the rural areas of a country where there are greater possibilities to find situation of economic insecurity and social deprivation than in urban centres.

This study concludes that the main support to populist parties is provided by older people, by the religious and the least educated branches of the population while less support was given by the minorities (of all types) within a society. (Inglehart R.F., Norris P., 2016)

1.9 THE DURKHEIMIAN APPROACH

This approach, theorized by Hawkins and Rowira Kaltwasser, considers the rise of populism as a consequence to great social changes which took the form of modernization and industrialization in Latin America and the form of globalization in Europe with consequent variations in the values of the society. The sectors of the economy and, in general, the workers more penalized by the advent of globalization such as the blue-collar workers and the low-skilled workers or, to generalize the “losers to globalization”, have lost their social and material status and they were the one that saw in the populism a solution to restore the national identity and to fix their problems. (Silva B.C., 2017)

1.10 THE DOWNSIAN APPROACH

This approach, also theorized by Hawkins and Rowira Kaltwasser, considers the economic variable as the sole factor that contributes to the populist rise. The economic variable that this approach considers is the economic grievance which is upon each individual of the society who, ultimately, acts as a rational player who wants to obtain the best material solution for himself.

So, the dissatisfaction of the individual in this approach is linked with the economic leadership of the country, with the capability of the government to create and deliver better living conditions to the population, with the capability to protect the national economy from any potential threat; the failure to reach these objectives is seen as a direct consequence of the intentional action perpetuated by the elite. (Silva B.C., 2017)

By comparing the Durkheimian approach and the Downsian approach the main difference is easily recognisable; while the former approach focuses its explanation on a more ideological level with the cultural and social dimensions, the latter approach focuses its explanation solely on the economic dimension resulting in a more material method.

CHAPTER 2

2.1 THE ECONOMIC DETERMINANTS OF POPULISM

So far, there was a description of the determinants of populism from different points of view and different interpretations provided by the classical literature; in this chapter the focus is pointed at the understanding of the economic determinants of populism.

The work of 2018 by Guiso et al. titled “Populism: demand & supply”, whose focus is to analyse the determinants at the basis of the demand and of the supply of populism, considers many variables; first of all, it considers the determinants of the voters by categorizing three different variables: the economic insecurity, the trust toward the political spectrum and other controls (such as education, the attention to politics and the risk aversion). The first point is the one that is particularly useful for this chapter since it considers the economic insecurity which is measured with three different factors: the unemployment period of the voters, the level of financial distress of the electors and finally the exposure to globalization since it can be connected with the threat posed to the low-skilled workers in manufacturing to the loss of their job position due to the politics adopted to counter globalization shocks; the study considers also an element apt to evaluate the sentiment toward immigration, since it represents a proxy to measure the competition in the labour market. These three measures are used in combination since one single dimension would not be enough to explain a multi-faced phenomenon like this one. The economic dimension is particularly important according to this study since it influences the results in two different ways by discouraging the voters from electoral participation, thus creating an empty space for the populist platform, and by increasing the likelihood of voting for populist. Following the previous measures that were introduced to express the economic insecurity dimension, the populist preferences are more likely to be found in people who have lost their job, that have suffered from a situation of financial distress and have been exposed to globalization; the study, indeed, shows that a change in the economic insecurity dimension of one standard deviation point creates a decrease by 6,8% in the electoral turnout and a higher support for the populist platform by 11,5%. As we have seen before the sentiment toward immigration was used as a proxy to understand the threat posed to low-skilled workers by the competition in the labour market and, indeed, an increase of one standard deviation point in the anti-immigrants’ sentiments lowers the electoral participation by 1% and increases the votes supporting the populist parties by 6,1%. An additional finding depicts that for the people who pass from a condition of economic security to a one of economic insecurity there is an increase in probability of voting

populist by 56% of the unconditional sample mean and the probability of voting participation decrease by 33%. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

As we can see from the figure below an increase in the economic insecurity (the Venn diagrams on the left and on the right represent respectively the situation before and after an increase in the economic insecurity) leads to an increase in the electoral abstention (A in the figure below) and to an increase of support to populist parties (P in the figure below) and to a decrease of support to non-populist parties (NP in the figure below).

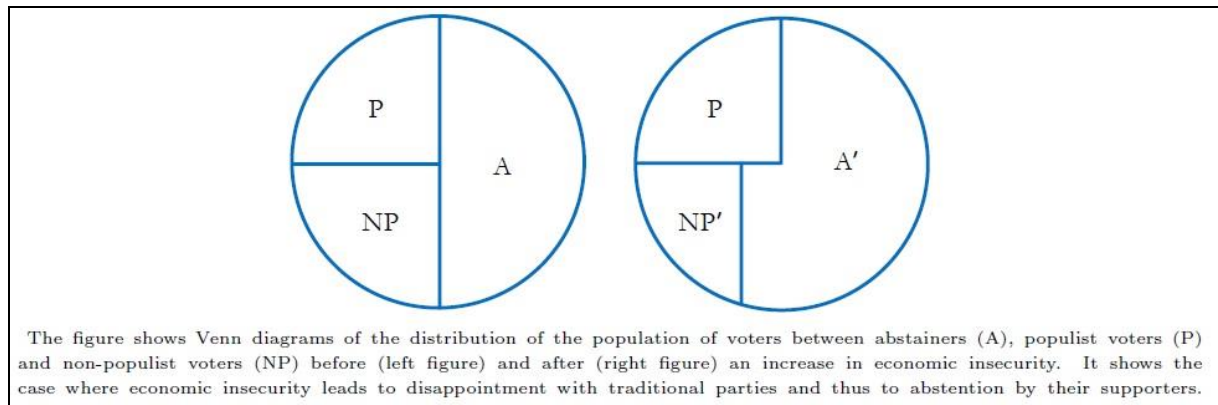


Figure 2: (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

The economic insecurity factors considered in the study of Guiso et al. can also influence the electoral participation and the support toward the populist platform in an indirect way since they influence the trust toward the established political parties and toward immigration.

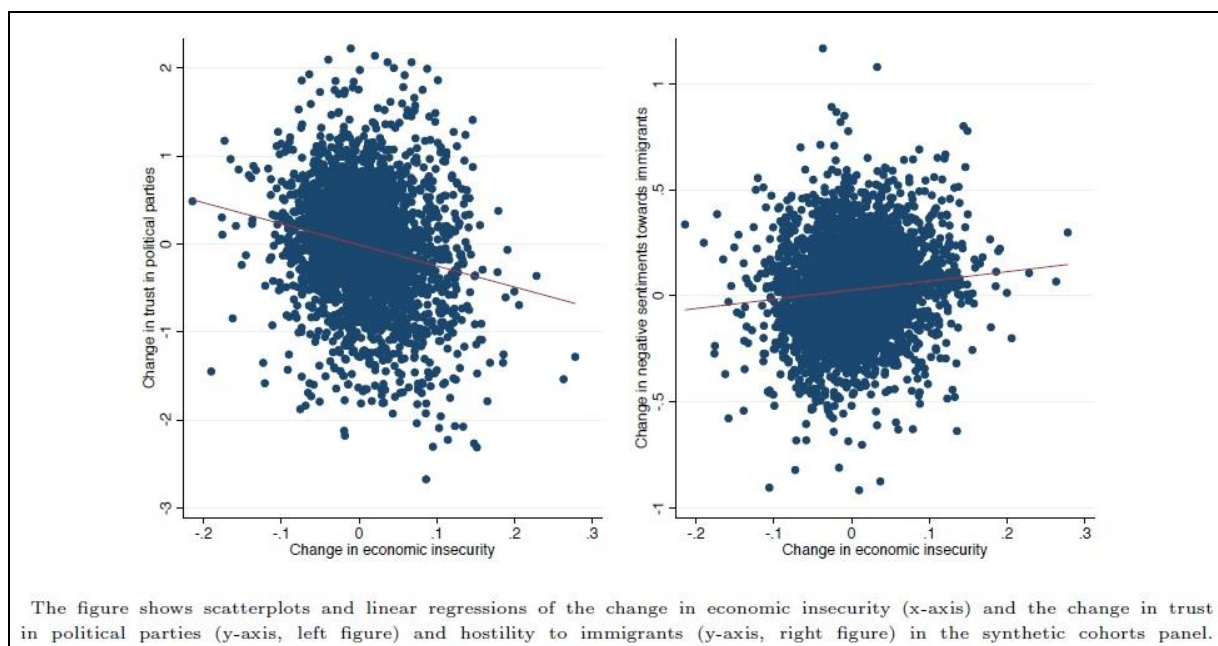


Figure 3: (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

As we can see from the panels above there is a correlation between a change in economic insecurity and a change in the trust toward the political parties; a one-point standard deviation increase in the economic insecurity lowers the trust toward the political parties by 7,3%. The panel also tells us that an increase of one standard deviation point in the economic insecurity increases the negative sentiment toward no-EU immigrants by 5% confirming that a situation of economic insecurity lowers the trust toward the political parties and increases the hostility toward no-EU immigrants. To sum up, considering all the effects and the measures together, the study shows that an increase by one standard deviation point in the economic insecurity creates an increase for populist voting by 11,3%; the 92% of this increase is attributable to the greater support for the populist party, the 6% to the lower trust toward other parties and the 3% to the increasing fear of immigrants. Also, an increase by one standard deviation point in economic insecurity results in a lower electoral participation by 8,5% with the 93% of such decrease attributable to its direct effect, the 6% to the lower trust toward political parties and, finally, 1% to the increasing fear of immigrants. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

When moving to the supply side it is shown that the supply of populism is greater in countries where the economic insecurity is higher and where there is a greater exposure to globalization; an increase in the economic insecurity by 1 standard deviation point creates an increase in the numbers of the populist parties by 35% and, an increase by 1 standard deviation point in the share of imports (here utilized as a proxy to measure the exposure to globalization) creates an increase of populist parties by 22%. These results show that there is a greater chance of seeing the rise of populist parties when there are situations of economic insecurity and when there is a greater degree of globalization. Finally, this study specifies the determinants for a new party when making the choice between left-wing and right-wing populism; the income inequality drives the probability for the new born party to be a left-wing one, with an increase by 1% in the standard deviation of the income inequality that moves the orientation by the 21% to the left side of populism. The shift toward the right side of populism is driven by the share of immigrants from Muslim countries with an increase by 1% in its standard deviation that creates a more likely populist parties' orientation to the right by 29%. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,²)

Another study proposed by Guiso et al. of 2018 titled “Global crisis and populism: the role of eurozone institutions” poses the attention on additional factors that may be particularly interesting in order to have a better insight of such phenomenon. There is a consideration about the frustration effect and the relocation effect; the frustration effect can be considered as

a behavioural attitude in response to an economic situation where the voters who suffer from a situation of financial distress or that are threatened by the exposure to globalization are more likely to be disillusioned by the economic policies of the traditional parties and are more likely to abstain from future elections or to consider the “exit from Euro” alternative proposed by the populist parties. The relocation effect, instead, is referred to the situation in which the firms located in the western side of the European Union are threatened by the competition coming from the Asian countries since they present lower production costs, a situation which ultimately results first in the relocation of the firms from the western side of the EU to the Eastern side of the EU (because of their lower costs) and then, for the country of origin, in a loss of competitiveness and of wealth. Another important concept is the one of the policy strait jacket that is the impossibility for the countries belonging to the European Union to adopt a fully independent economic policy to respond to the crisis of the markets, a situation which may ultimately worsen certain effects of the crisis. This dimension is measured with three indicators: the loss of discretion in devaluing the currency in the case of a loss of competitiveness (a particularly relevant problem if the nation belong to a single currency Union), the constraints on the domestic fiscal policies such as the constraints contained in the Growth and Stability Pact and the lack of discretion in setting the monetary policy, particularly relevant if a country is experiencing a specific shock that requires country-level reforms. The presence of the policy strait jacket pushes upward the consequences that derive from the frustration effect and the relocation effect, increasing consequently the support toward the populist platform. The findings of this study are the following; the increase in the imports from China (here utilized to measure the level of the relocation effect) by one standard deviation point results in an increase by 17,5% of the populist voting shares in the Euro-Zone countries. This situation is more likely to be found in the western countries of the European Union than in the no European Union countries and in Eastern European countries (which are the countries of destination of the relocation effect). (Guiso L., Herrera H., Morelli M., Sonno T., 2018,1) Additionally, the paper proposes a study on the Western European Union States and countries that have more independence since they are part of the European Union but not of the monetary union (Sweden, UK and Norway) when exposed to the globalization effects and with the presence of the so called policy-strait jacket; it was found that for these three countries the effects of the globalization shocks resulted to be smaller than in the Eurozone countries. Furthermore, the policy strait jacket has different consequences also with respect to its relative presence and interference in the country considered; in such study it was found that in the countries where the policy strait jacket was below the 75th percentile (used here as a threshold) the effects of the financial crisis increase the support to

populist voting by 13% while where the policy strait jacket was above the 75th percentile the effects of the financial crisis increase the populist voting by 59% of the sample mean. The study shows that in the countries where there are constraints on the domestic policies the frustration effect is considerable and the support toward the populist parties is greater since the European institutions are seen as the cause to the loss of discretion in the macroeconomic policies; such trend is more evident in Euro zone countries where there is a greater degree of the policy strait jacket rather than in the no- Euro zone countries. As we can see from the table below the drop of trust toward the European Parliament is much greater for the countries belonging to the European union with a drop of 30% in 2014 compared with the 2000 with instead the western and eastern no-Euro zone countries drop of 10% points with respect to the 2000 average. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

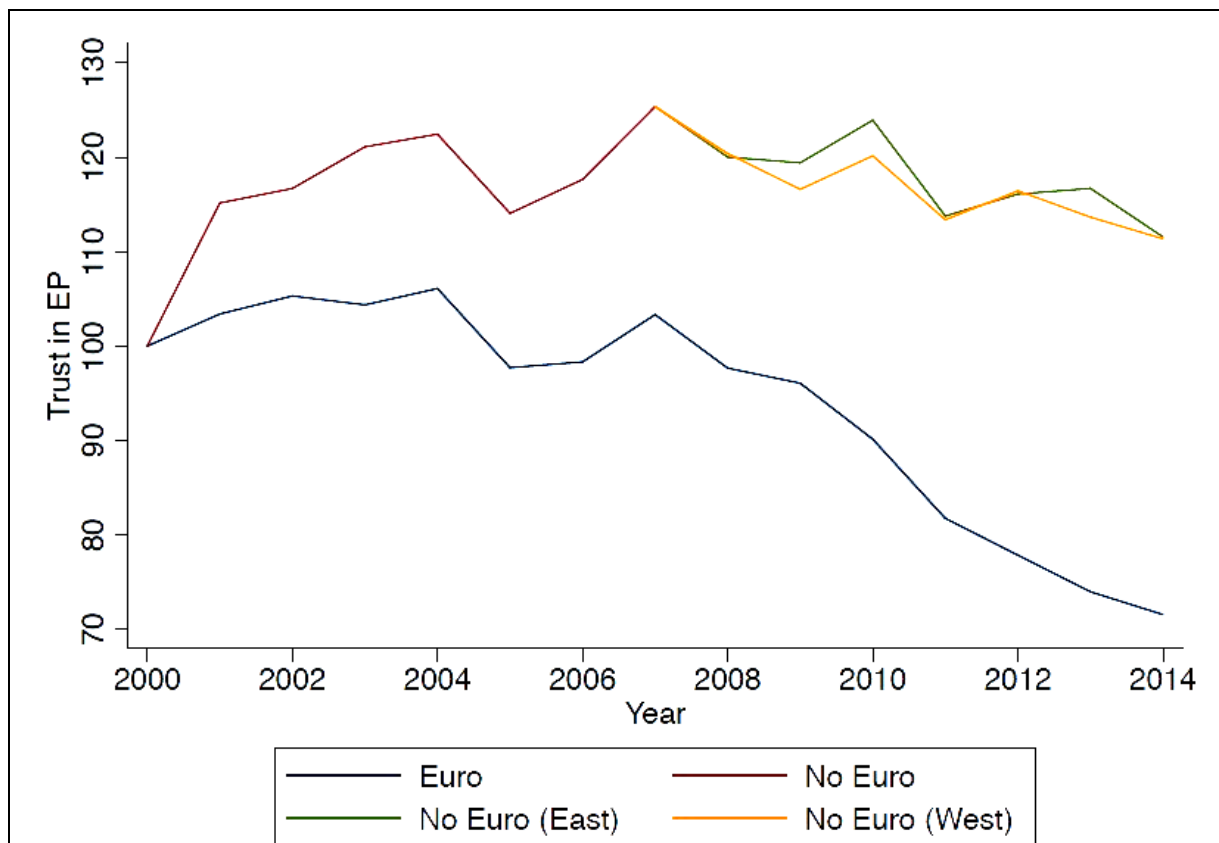


Figure 4: (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

The following panel provided by the same study shows the correlation between the trust in the European parliament and the strength of the policy strait jacket in the European countries, showing that the increase in magnitude of the policy-strait jacket results in a lower trust toward the European parliament. (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

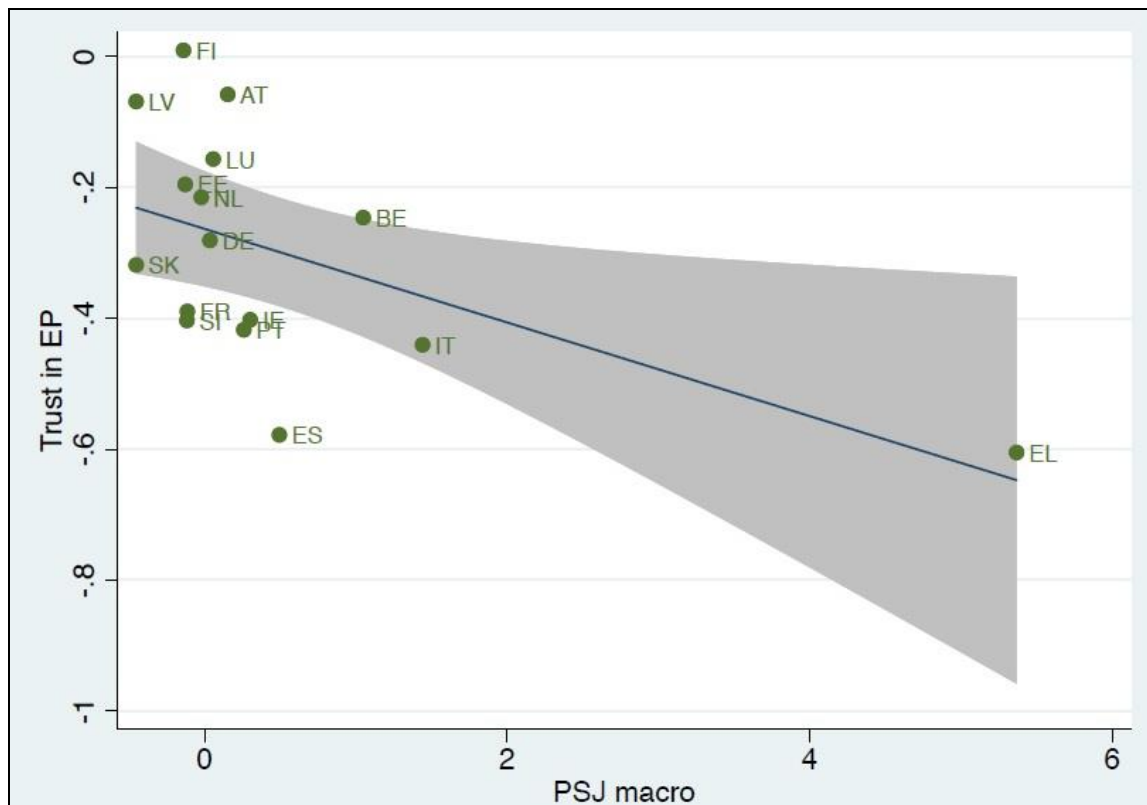


Figure 5: (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

The paper considers also the situation of economic insecurity caused by the financial crisis that boost the support to populist parties in countries with more financially dependent industries with an increase of their voting share by 42% of the sample mean following the 2008 financial crisis; the rationale behind such results is that the countries that are more dependent on external finances are hit harder by the economic crisis that creates more economic uncertainty and that, ultimately, results in a higher support to populist parties. Also, when a third interaction term is included in the analysis (between the financial dependence, the crisis and the country variable), the effects of the crisis and of the financial dependence are stronger with an increasing support to populist voting by 52% of the share votes in the EZ regions (Guiso L., Herrera H., Morelli M., Sonno T., 2018,¹)

A 2018 study by Jonathan Hopkin and Mark Blyth titled “The global economics of European populism: growth regimes and party system change in Europe” takes the income inequality as the driver for the greater support to the populist parties considering that, the larger the share of potential voters that suffers from income decline or income inequality, the greater the chances of having more people voting for populist parties, rejecting the classic growth model proposed by the incumbent cartel parties.

As we can see from the two figures below there was a positive correlation in 2008 between the income inequality (measured with the Gini coefficient) and the support to populist parties in the first figure while the second shows a negative correlation between the compound growth wage and the support to populist parties up to 2014.

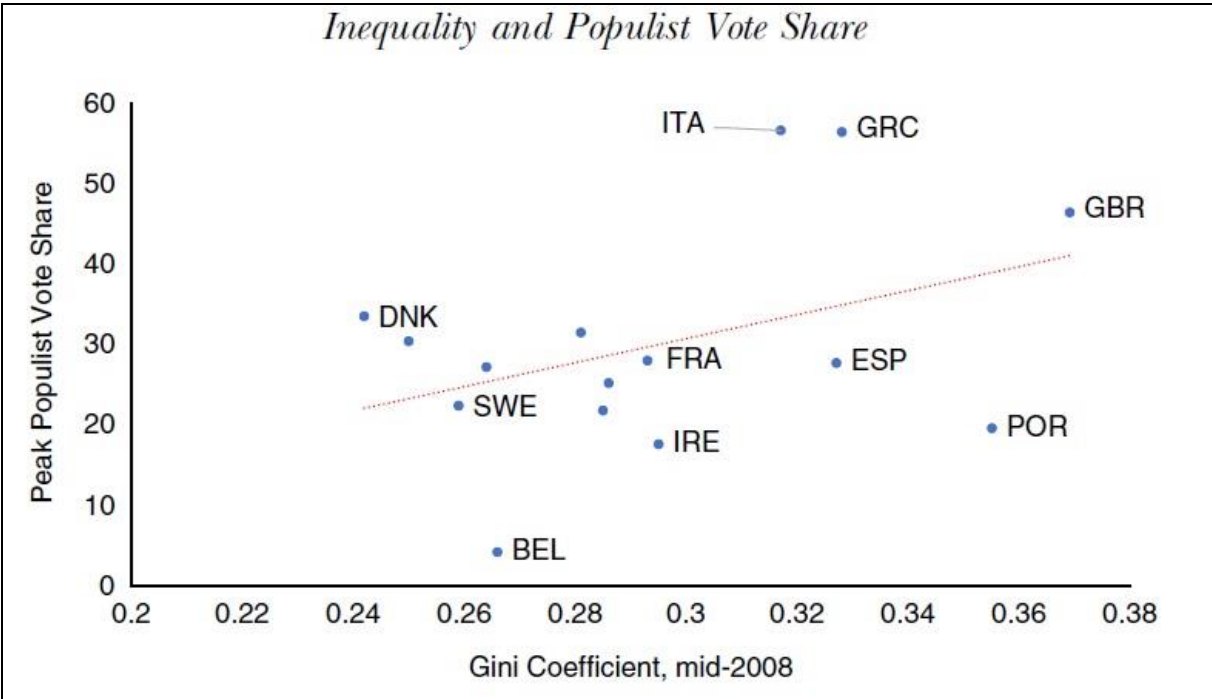


Figure 6: (Blyth M., Hopkin J., 2018)

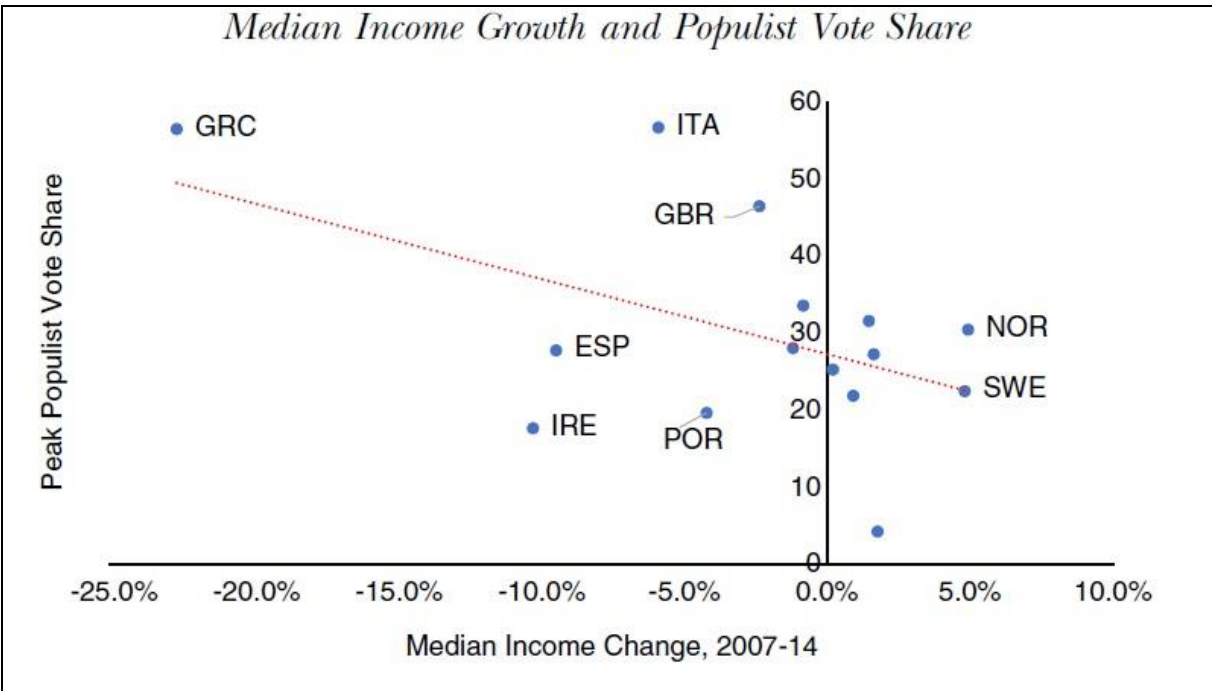


Figure 7: (Blyth M., Hopkin J., 2018)

In general, the findings of this study show that in a model of inclusive economic growth, a situation where in a country the income of the individual are in a condition of stability or in an upward trend, it is more difficult for the populist platform to beat the traditional party system (Blyth M., Hopkin J., 2018).

The economic inequality is a driving element of the study of 2016 by Ronal F. Inglehart and Pippa Norris titled “Trump, Brexit and the rise of populism: economic have-nots and cultural backlash” where there are several considerations about the potential economic causes at the basis of the rise of populism. This study considers the theory of growing economic inequalities where, starting from the early twenty-first century, the more advanced societies saw the rise of new under-classes among the poorly-educated populations. These new social categories can include in their limits the low-skilled, blue collar underclass, individuals with low wages and minimal job security, people who are more exposed to the effects of the financial crisis and more exposed to the threats of globalization, in general people more vulnerable to social risk. In the recent years, despite the economic growth of certain countries, the income and the wealth inequality has grown as well; the gains that derived from such economic growth in the Western countries were allocated almost entirely to the top ten percent of the population, widening even more the income differential. The vast majority of the population that wasn’t affected by such wage growth has seen the inequality worsened even more because of the erosion of blue-collar union, the growth of the knowledge economy, the growth of the outsourcing, the growing capital and labour mobility, the globalization and the limited capability of the national governments to regulate the investment decisions of the single firms. This concept of economic inequality is linked with the rise of populism in such countries where (the populism) proposes itself as the one who understood this inequality that derives from the division between winners and losers. Any subsequent events that can add additional insecurity like immigration flows, terrorism, acts or austerity measures are blamed of worsening the economic grievances of the inequalities. Populism consequently, according to such study, will be highly considered in the marginalized sectors of the economy; the voters of populist parties are more likely to be the house-hold dependent on welfare benefits, the unskilled workers, the unemployed ones, and those who lives in the inner-city urban areas and, in general, those who subjective find difficulties in having economic stability. The graph below shows that the greater support to populist parties can be found in the petty bourgeoisie, the working class, the routine nonmanual and the foreman and the technicians, individuals that can better represent the above-mentioned categories. Even if this model can explain in a good way the rise of populism the economic dimension loses its importance and its relevance

further on in the study when it interacts with other factors such as the cultural values and the demographic variables. (Inglehart R.F, Norris P., 2016)

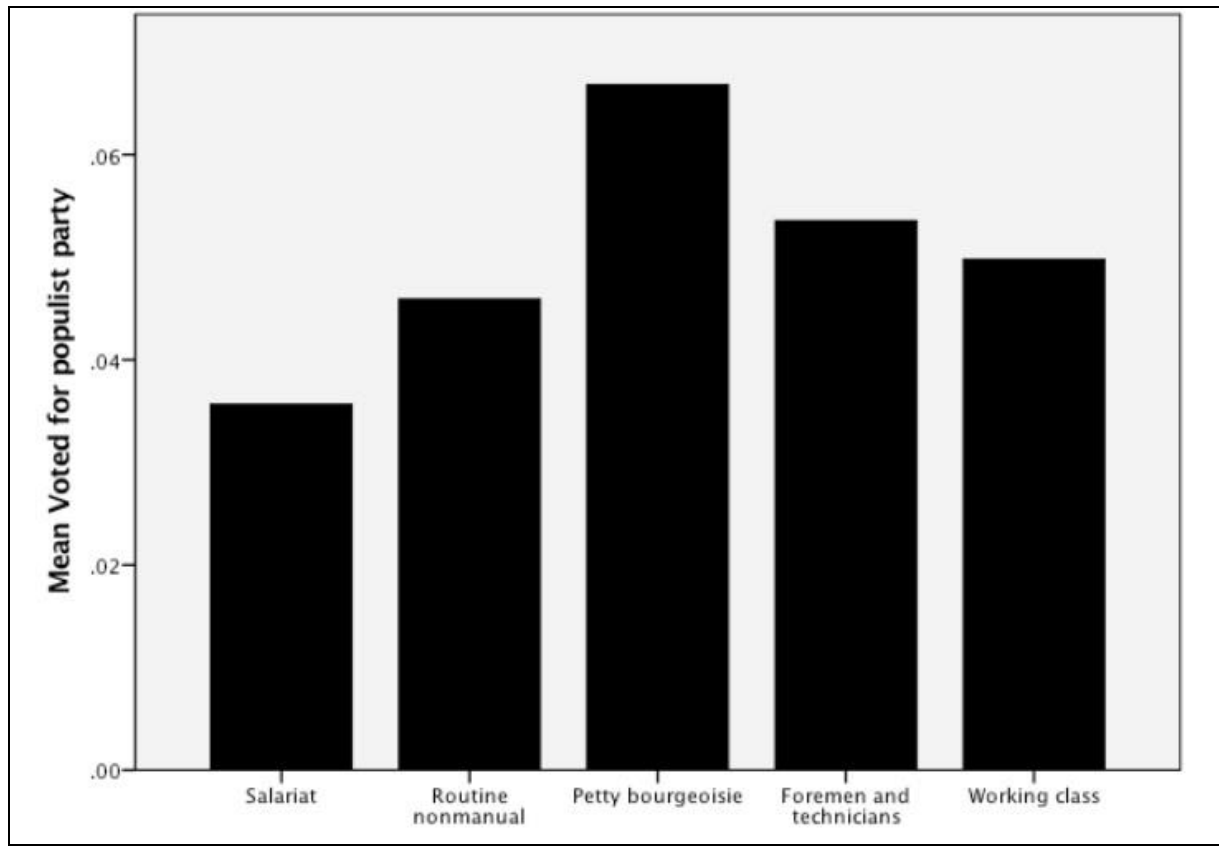


Figure 8: (Inglehart R.F, Norris P., 2016)

Furthermore, a recent study of 2018 by Sergei Guriev titled “Economic drivers of populism” tracked the change in support to populist parties in 240 regions of 26 countries of the European Union between the 2000 and the 2017 considering as factors worth of analysis the economic crisis and the globalization. In this paper it is highlighted that unemployment in particular can be considered as an important factor to explain populism since a 1 % point change in unemployment results in a 1% change toward the populist votes, a data that results even more consistent when considering the unemployment increase by the pre-crisis composition of the regional economy; here a 1% increase in unemployment results in a 2% increase in support to populist votes. This result can be explained since even the individuals who possess a job are scared by an increase in the unemployment since they could face a higher risk of losing their job or a lower possibility to see an increase in their actual wages. The globalization in this paper is explained at the light of two categories of workers: the high-skilled one and the middle-skilled one. The high-skilled workers are positively affected by the globalization since they can sell their services to bigger markets while the middle-skilled workers, in contrast with the low-skilled workers whose job are too manual and cheap to be

outsourced, are outsourced and automated causing this category to be more inclined to develop anti-establishment sentiments. Consequently, there will be a different political approval between the high-skilled and the middle-skilled workers which increases with the proportion of skilled export (in GDP terms) and decreases with the share of skilled imports (in GDP terms); indeed, a 10 % point change in the skilled imports creates a decrease in the political approval by the skilled workers of 3% (relative to the unskilled ones) or a 10% increase in skilled exports results in a 2% increase in political approval by skilled workers (relative to the unskilled ones). (Guriev S., 2018)

As we had the possibility to see so far the globalization, with its consequences and its various aspects, is subject of numerous analysis and is consistently presents in the various studies as one of the potential cause that can explain the rise of populist parties; globalization plays an important role in the 2018 paper by Dani Rodrik titled “Populism and the economics of globalization”. The concept at the basis of this study is that the rise of globalization creates a situation in which, even in a growing economic trend, there will always be winners and losers (a concept which was introduced before) and consequently the losers need to be compensate for their loss in order to create a win-win situation; according to Rodrik the redistributive effects of liberalization increase when the trade barriers decrease since they reduce and erase the net gains obtained from the globalization. Many countries may be attracted by the potential benefits that derive from the globalization but such openness to trade needs to be followed by strong redistributive and compensative policies in order to provide a real benefit for the country; in general, the compensation policies are usually considered as an add-on to trade agreements while they should be a transparent compensation and one of the best form to practice such policies is to include them in the social programs of a nation rather than considering them as a reactive response to an economic condition. According to Rodrik, such policies in certain European countries performed good because they represented a bargain between the labour and the capital where there are higher safety nets for the individuals in exchange for a more open economy. An inefficient or an absent redistribution creates situation of inequality since, theoretically, there are winners but also losers without a proper compensation for their loss; it is considered in the cited paper that even if there are conditions that can trigger inequality, as long as there is a high belief in social mobility, even high level of inequality will be tolerated.; inequality is more likely to be sensed by the people when there is the perception that the losses of a certain part of the population are caused by unfair practices. (Rodrik, D., 2018)

The globalization is not only referred as the trade liberalization and the openness to the market, but it is also considered as a higher degree of integration in the financial markets, a greater monetary unification and more capital mobility. In the paper of Rodrik it is stated that the greater degree of financial integration moves along with higher frequency of financial crisis over time in particularly in the European Union where the monetary unification and the financial integration have created a convergence of the borrowing costs among the different States; this means that borrowers had the possibility to accumulate large accounts of problematic debts, but such credits booms would ultimately turn into bust and aggravate the economic conditions of the issuing States once the credits dries up after the financial crisis, finding that the capital account liberalization results in an increase on the coefficient of income inequality. An additional problems is created by the taxability of the firms; as the capital mobility increases it is more difficult for the national governments to tax the local firms that may decide to relocate their activities and, in order to recover the loss, the governments had to tax more the consumptions and the labour as it is shown in a 2002 work of Bretschger and Hettich where the openness to the markets is negatively correlated with the corporate tax rate and positively correlated with the labour taxes, providing support to the previous assertion. (Rodrik D., 2018)

Furthermore, in the book “Contemporary issues in international political economy” edited by Fu-Lai Tony Yu and Diana S. Swan, 2019 there are additional explanation regarding the potential connection between the rise of populism and the globalization; globalization indeed, can be seen as an increasing liberalization in the trade (trade globalization), a liberalization of the capital movement (financial globalization) and a higher labour mobility. These three different dimensions that are embedded in the globalization effects presents also a dark side; the financial globalization for example brings a larger degree of volatility in the market, increasing consequently the frequency of financial crisis while the labour mobility can create potential problems for a developed country since there could be a huge inflow of workers from developing countries that can create situation of unemployment and social unrest. The globalization and its effects present both positive and negative aspects since there could be a consequent increase in the inequality and economic uncertainty and therefore globalization needs to be complemented, as we have seen before, by reforms that can exploit the upside potential of the trade and of the financial openness and that can soften their negative effects. This major problem in the book is illustrated as the political trilemma which comprises as angles the deep economic integration, the nation-state and the democratic politics; this scheme shows that it is impossible to have all these dimensions managed properly all at the same

time. For instance if you want to obtain a full and deep economic integration you should remove any transaction cost barriers that obstacle such result, barriers that are erected by the nation state (and it would be the case of the global federalism where the scope of the global market coincides with the one of the democratic politics); if you want to preserve the nation state you should make it responsive only to international stimuli disposing off the power to address the domestic objectives (similar to the gold standard during the first wave of the globalization) and finally, if there is the desire to preserve both the nation state and the democratic politics, then a limited version of globalization is requested (similar to the Bretton Woods regime after WWII). This explanation that is provided in the book shows the reason behind the impossibility to obtain an optimum in all these three dimensions and, consequently, the globalization will always bring winners and losers. This inability to cope with the challenges of globalization paved the ground for the inefficiency of the redistributive policies and for the growing inequality and, ultimately, for the rise of populism; the greater the degree of globalization, the greater will be the inequality and major will be the support to populist parties. (Yu Fu-Lai T., Kwan D.S., 2019)

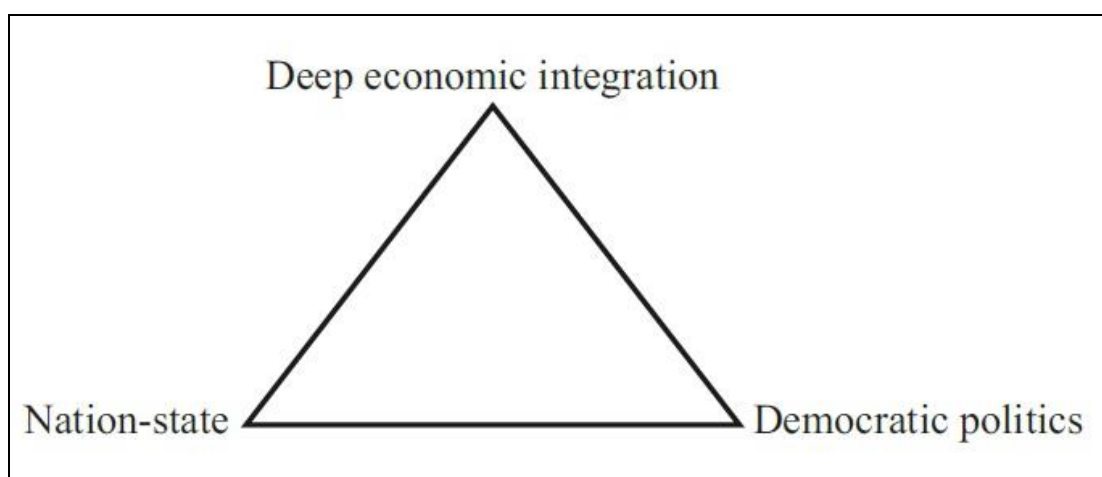


Figure 9: (Yu Fu-Lai T., Kwan D.S., 2019)

Additional studies provide robustness to the hypothesis that a higher degree of unemployment or, in general, a higher degree of uncertainty in the job can be connected with a stronger anti-European sentiment; it is the case of the paper of 2018 by Marie Lechler titled “Employment shocks and anti-EU sentiment”. The paper in order to better explain the unemployment phenomenon considers three respondent variables: the image, the benefits and the membership. The image variable refers to whether the EU triggers positive or negative sentiments (it is more an evaluative variables that describes the degree of pro/anti EU), the benefit variable refers to whether the country is considered to have benefited from its belonging to the European Union and the membership variables refers to, according to the

respondents, whether the EU's membership is a positive or a negative thing for the individual countries. The results of such study demonstrate that there is a correlation between the employment rate and the anti-EU sentiments; indeed, a 10% increase in the change of the employment rate results in a 4% increase on the image scale, in a 3% increase in the benefit scale and a 2% increase on the membership scale resulting in the final comparison to the means that an increase of 10% in the change of the employment rate result in a 5-10% change in support toward EU. The rationale behind such result is that anti-EU people manifest their Euroscepticism during the election as a reactive response to adverse economic conditions (in this case the lower employment level) for themselves. The paper continues by categorizing the potential causes of the growth of anti-EU sentiment by dividing and by considering the effect in isolation and in interaction with other terms as we will see from the following panels.

Here there was a binarization of the changes in the employment rate with the sole consideration between positive and negative; the results are robust since a positive change in the employment rate increase the EU image by 3% and the perceived benefit by 2% while the membership variable is not statistically significant.

Effect of binary employment changes on attitudes toward the EU.			
	(1) Image	(2) Benefit	(3) Membership
Δ Employment (Binary)	2.9088*** (0.6285)	2.1608*** (0.7053)	1.0779 (0.7046)
Year FE	✓	✓	✓
Region FE	✓	✓	✓
adj. R ²	0.63	0.62	0.60
N	2668	2950	2950
Cluster	265	264	264
Mean DV	43.86	61.01	53.92
OLS estimations. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions and are coded to lie between 0 and 100. Change in employment rate is binary (1 if positive over past 5 years, 0 if negative over past five years). Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.			

Figure 10: (Lechler M., 2019)

Here instead there is a study on the absolute employment change separated from the changes in active population in order to show that the change is caused by the absolute employment dynamic rather than from the change in active population (that is not statistically significant as it is possible to see), a result in line with the previous ones.

Effect of employment changes on attitudes toward the EU.			
	(1) Image	(2) Benefit	(3) Membership
Δ Absolute Employment (%)	0.4487*** (0.0611)	0.4256*** (0.0579)	0.2211*** (0.0601)
Change Active Population (%)	-2.8778 (7.2219)	12.0728 (9.8012)	-4.0525 (9.4951)
Year FE	✓	✓	✓
Region FE	✓	✓	✓
adj. R ²	0.63	0.64	0.60
N	2715	2980	2980
Cluster	265	264	264
Mean DV	43.73	61.04	53.91

OLS estimations. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions and are coded to lie between 0 and 100. Absolute change in employment is computed over five years. Additional control variable is change in active population over the same time. Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.

Figure 11: (Lechler M., 2019)

Following, the level of employment rate is included as a control variable; the results are slightly lower compared with the previous ones but still coherent and statistically significant for the most of them with a 10 % change in the employment rate that results in a 5%-point increase on the image scale for instance.

Effect of employment changes on attitudes toward the EU.			
	(1) Image	(2) Benefit	(3) Membership
Δ Employment (%)	0.1701** (0.0788)	0.2161** (0.1027)	0.1615* (0.0923)
Employment Rate (%)	0.5543*** (0.1180)	0.3053* (0.1816)	0.0778 (0.1523)
Year FE	✓	✓	✓
Region FE	✓	✓	✓
adj. R ²	0.64	0.63	0.60
N	2668	2950	2950
Cluster	265	264	264
Mean DV	43.86	61.01	53.92

OLS estimations. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions and are coded to lie between 0 and 100. Change in employment rate is computed over five years. Level of employment rate is added as additional control. Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.

Figure 12: (Lechler M., 2019)

Here instead there is the addition of control variables that represent the trust toward the national parliament and the national government, and an additional outcome was included, the

“trust in EU parliament”. Here the employment changes effects on the EU attitude remains coherent for the image and the benefit even if with lower value. Finally, holding constant the evaluation of national institutions it can be seen that employment changes influence the trust in the EU, showing that a positive change on the employment is reflected on a major value of trust in EU parliament.

Effect of employment changes on attitudes toward the EU.				
	(1) Image	(2) Benefit	(3) Membership	(4) Trust EU Parliament
Δ Employment (%)	0.1686*** (0.0491)	0.2010** (0.0783)	0.0731 (0.0725)	0.1722*** (0.0542)
Trust in national government	0.0083 (0.0419)	0.0024 (0.0445)	−0.0471 (0.0442)	−0.0564 (0.0412)
Trust in national parliament	0.3828*** (0.0412)	0.3429*** (0.0443)	0.3535*** (0.0422)	0.5824*** (0.0424)
Year FE	✓	✓	✓	✓
Region FE	✓	✓	✓	✓
adj. R ²	0.72	0.69	0.69	0.73
N	2668	2213	2213	2851
Cluster	265	263	263	265
Mean DV	43.86	62.67	54.44	54.44
OLS estimations. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions and are coded to lie between 0 and 100. Change in employment rate is computed over five years. Additional controls include trust in national government and trust in national parliament. Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.				

Figure 13: (Lechler M., 2019)

Following, there is an additional control that regards the effects of the employment rate during the financial crisis measured with the interaction term between the employment rate and the crisis dummy which is statistically significant and greater in the value of the coefficients for the image and the benefit outcome, showing that the effects of employment changes are greater during the years of the recession.

The role of the financial crisis.			
	(1) Image	(2) Benefit	(3) Membership
Δ Employment (%)	0.2312*** (0.0829)	0.2543*** (0.0772)	0.1558* (0.0802)
Crisis Dummy	−10.6898*** (1.5131)	0.5155 (1.7020)	−4.1564** (1.7497)
Δ Employment (in %) * Crisis Dummy	0.3411*** (0.1082)	0.2910** (0.1282)	0.1309 (0.1329)
Year FE	✓	✓	✓
Region FE	✓	✓	✓
adj. R ²	0.63	0.63	0.61
N	2668	2950	2950
Cluster	265	264	264
Mean DV	43.86	61.01	53.92
OLS estimations. Crisis dummy indicates post 2008 period. Change in employment rate is computed over five years. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions, which are aggregated by region and year and are coded to lie between 0 and 100. Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.			

Figure 14: (Lechler M., 2019)

Here it can be seen that the effects of the employment changes are stronger in a situation of crisis (post 2008) with statistically significant coefficients that present always higher value compared with the pre-crisis situation (for example for the benefit outcome the post crisis value of 0,4069 compared with the pre-crisis one of 0,3064).

The role of the financial crisis.						
	Image		Benefit		Membership	
	(1)	(2)	(3)	(4)	(5)	(6)
	Pre-2008	Post-2008	Pre-2008	Post-2008	Pre-2008	Post-2008
Δ Employment (%)	0.1389 (0.1080)	0.2499** (0.0970)	0.3064*** (0.0785)	0.4069** (0.1625)	0.1673** (0.0847)	0.2992* (0.1602)
Year FE	✓	✓	✓	✓	✓	✓
Region FE	✓	✓	✓	✓	✓	✓
adj. R ²	0.68	0.61	0.67	0.73	0.64	0.70
N	1299	1369	2175	775	2175	775
Cluster	250	206	247	204	247	204
Mean DV	48.67	39.30	60.47	62.53	54.59	52.04
OLS estimations. Sample is split into pre- and post (and including) 2008 periods. Change in employment rate is computed over five years. Image, Benefit and Membership are outcome variables based on Eurobarometer survey questions, which are aggregated by region and year and are coded to lie between 0 and 100. Standard errors (clustered by region) in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.						

Figure 15: (Lechler M., 2019)

Besides analysing the connection between the employment changes and the EU-sentiment the study considers the connection between the change in the employment rate and the voting behaviour of the European citizens in 5 different European parliament elections (1994,1999,2004,2009,2014). The paper found a positive correlation between the variation in the employment rates and the pro-Europe voting behaviour; indeed, a 10 % increase in the change of employment rates resulted in an increase of 4% on the pro-EU voting; all the results that were found in such paper indicate that good labour conditions drive positive sentiments and support to the EU while bad labour conditions can be translated into greater support to eurosceptic platforms.(Lechler M., 2019)

A further example in the European context is the one provided by Noam Gidrom and Jonathan J.B. Mijs, 2019 in the paper titled “Do changes in material circumstances drive support for Populist radical parties? Panel data evidence from The Netherlands during the great recession, 2007-2015”. This paper provided further proofs that the rise and in general the positive attitude toward populism are connected with economic uncertainty, here in this case with a change in the income of the individuals; indeed, it was found that a loss of income in low income individuals was followed by a growing support for left wing populism. The final result of this paper was that the populist parties benefit from the economic crisis since a loss

in income is connected with an increasing support to the left populist platform. (Gidron N., Mjis J.J.B., 2019)

A 2017 study by Linuz Aggeborn and Lovisa Persson titled “Public finance and Right-wing populism” points the attention on the relation between the rise of a certain type of populism and different model of public finances. In such paper the public finances are divided between two types of goods: the basic goods which represent basic services such as health care, infrastructures and so on and global goods which represent the aid to refugee supporting system, contributions to immigrants, foreign aid, etc. The rationale behind this division is that the established parties are more likely to spend the public finances between both of these two categories while the populist parties want to spend everything on the public good without considering the global goods at all. The paper constructed a model useful to explain the dynamics above mentioned; in such model the voters have linear preferences toward global good and strictly concave preferences onto public goods with the poor voters that demand higher level of public good than rich voters since the former have a lower level of private consumption (since the demand for public good is determined by the relative cost and consumption). As a consequence, the global good can be considered as a competitor of the public good for the vulnerable voters seeking for social protection by their governments. The right-wing populism, usually an opponent to globalization, to support to refugees and to liberal trade, in this competition on the public finances puts its preferences on one category of goods, the public one, getting the support from the more vulnerable categories. The rich voters will prefer the established parties since they enjoy a higher level of income while the more vulnerable categories, as the income gap grows, are more likely to support populist parties that prioritize the public spending since they represent their immediate needs. (Aggeborn L., Persson L., 2017)

Finally, the study of 2018 by Lubos Pastor and Pietro Veronesi titled “Inequality aversion, populism and the backlash against globalization” provides other useful interpretation by considering the rise of populism relative to three factors; inequality, financial development (ratio of country’s stock market capitalization to GDP) and trade balance (balance of country’s current account to GDP). Ideally the populism should be higher in countries with higher inequality, higher financial development and lower trade balance. For the scope of the study the authors decided to consider a party as populist when it is nationalist, anti-immigrant and anti-elite analysing consequently the relationship between the three potential causes of populism and these dimensions that characterize a populist party. (Pastor L., Veronesi P., 2019)

In this first set of panels the paper shows the correlation between the voting share of nationalist parties and respectively the inequality, the trade balance and the financial development; as we can see there is a positive relationship between the support to nationalist parties and the growing inequalities and the financial development and a negative relationship with the trade balance.

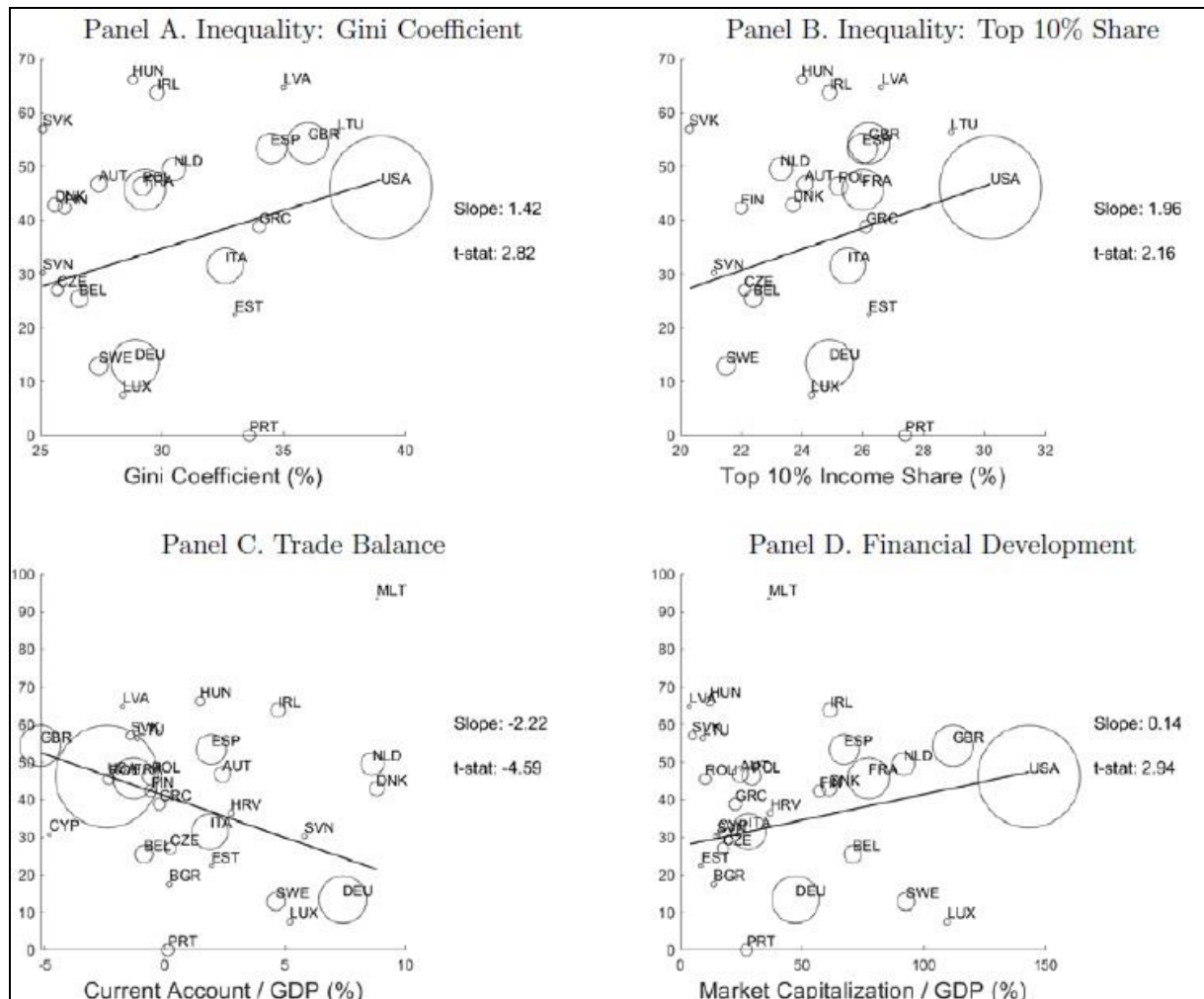


Figure 16: (Pastor L., Veronesi P., 2019)

Here instead the same variables are put in relation with the anti-immigrant's dimension; the results are similar compared with the nationalist dimension with a positive relationship between the support to anti-immigrants' parties and the increase in inequalities and in financial development and a negative relationship with the trade balance.

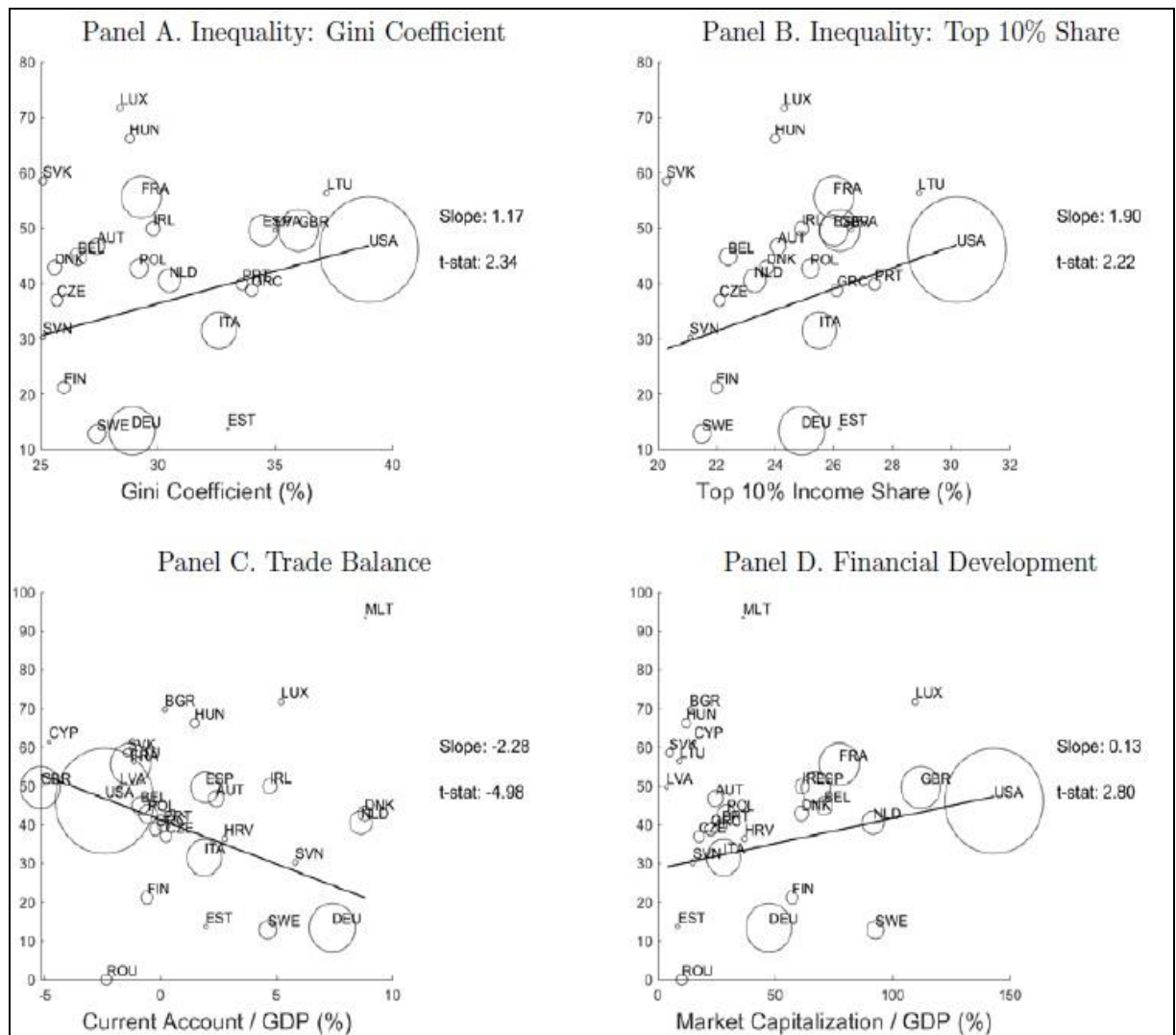


Figure 17: (Pastor L., Veronesi P., 2019)

The next graph, that we can see below, consider the three variables in relationship with the anti-elite dimension; as before, the relationship between the support to anti-elite parties and rising inequalities and financial development is positive and negative with the trade balance.

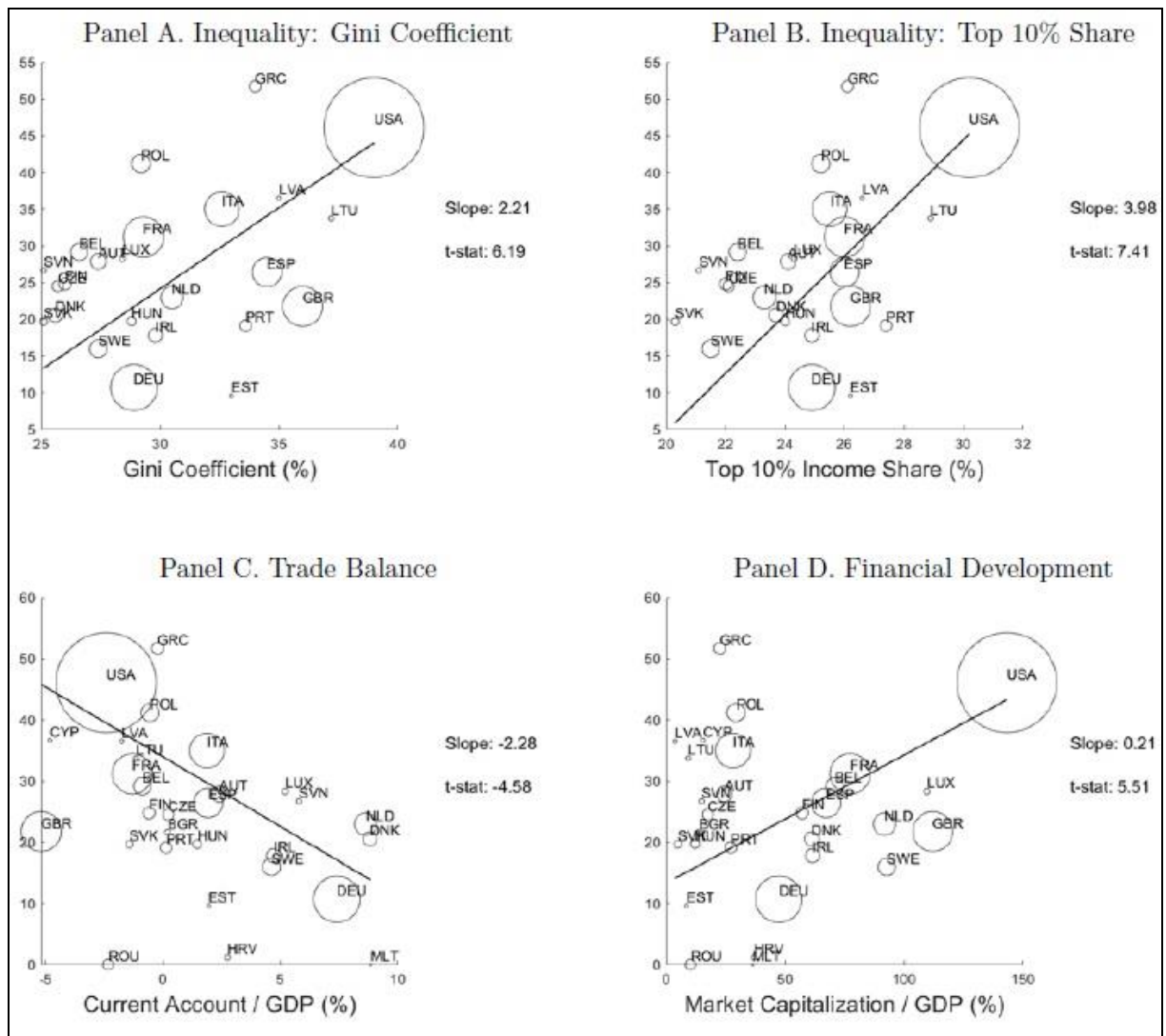


Figure 18: (Pastor L., Veronesi P., 2019)

The three dimensions that characterize the populist parties present the same results on the same variables (even if the magnitudes of the impacts are different) and consequently it is reasonable to say that the rise of populist parties is connected with these 3 variables: the dimensions considered are proxy utilized to measure the presence of populism which, according to these result, appears to be more evident in situation of greater income inequality and financial development and in situation when there is a worsening of the trade balance .

An additional variable, the protectionism, was considered and it presented the same results of the three previous dimensions as we can see from the graph below; this last variable was included in the analysis of the paper since the populist parties propose policies that are more inclined to protectionism over the free trade with a preference of a limitation to the globalization and its effects.

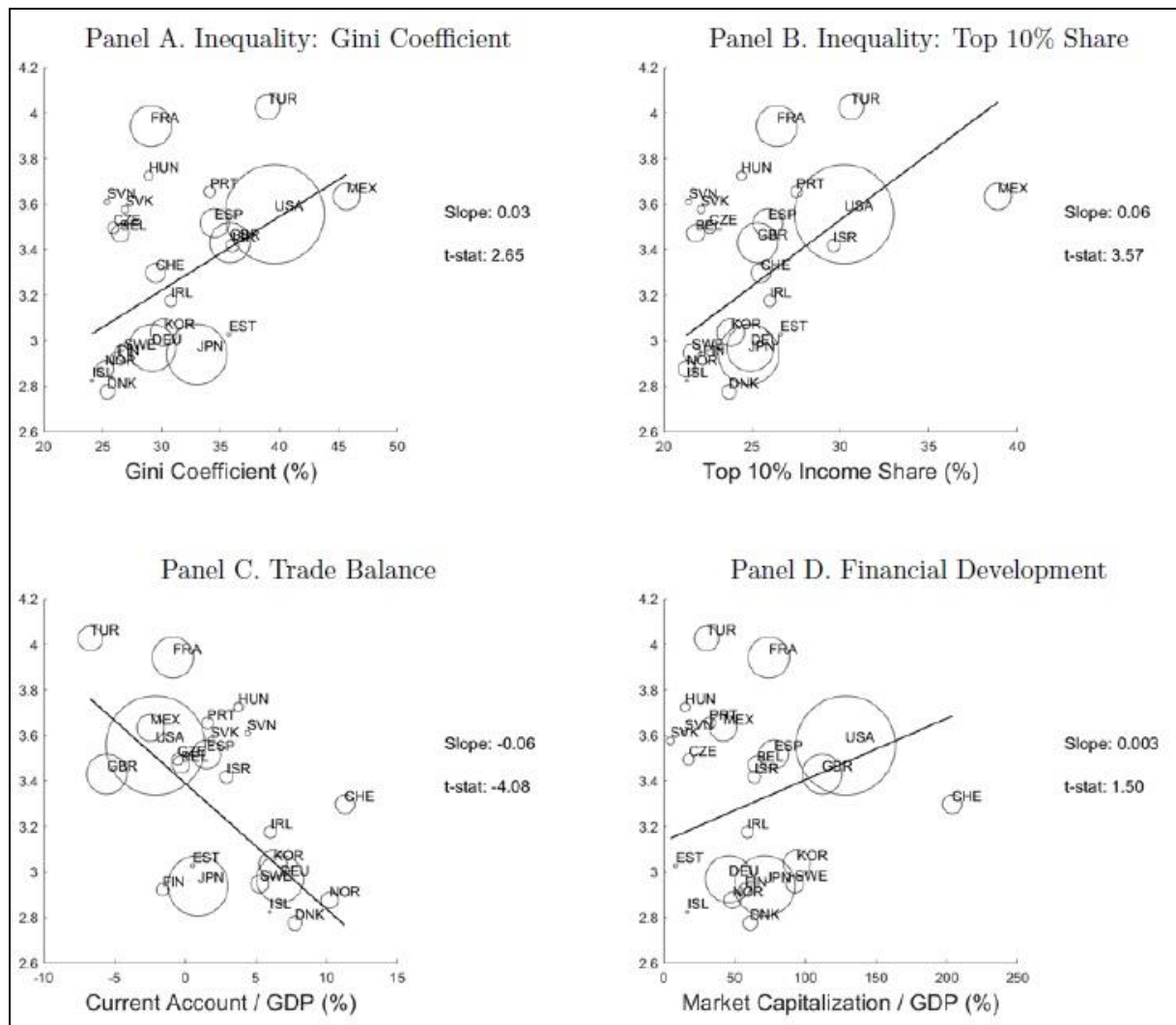


Figure 19: (Pastor L., Veronesi P., 2019)

To sum up, it is possible to say that from the studies and the papers above mentioned there isn't a single interpretation to the rise of populism but the most utilized economic drivers reside in the economic uncertainty, the economic inequality and the globalization; the economic uncertainty and inequality throughout all these studies have presented different characteristic such as the level of individual income, the employment level, the perceived inequality and the effects of the redistributive policies. The globalization, the other cause, was considered in many aspects with for example the frustration effect, the relocation effect, the dependence from the industries, the openness to the markets, the integration and the outsourcing and the incapability to cope with its negative effects. Also, an important role is played by the financial crisis that has increased the support toward populist parties as well. In general, the main sources of populism rise can be found in the economic uncertainty and insecurity, in all their declensions and aspects.

CHAPTER 3

3.1 THE EMPIRICAL ANALYSIS

As it was possible to see in the previous chapters there are many potential causes to the rise of populism and for sure a certain degree of influence can be attributed to the European Union, its institutions and its policies; to recall an example, the study of Guiso et al. of 2018 titled “Global crisis and populism: the role of eurozone institutions” points the attention to the relocation effect which causes different labour costs in the different European States and the policy strait jacket which imposes restriction on the fiscal policies of the single countries. Populism, indeed, can be considered as a miscellaneous of causes that may work together or in isolation and the main drivers of its rise can be different or can have a relative different importance according to the zone which is considered as we may recall the differences between the aspects of populism in Europe and in Latin America.

For the purpose of this chapter the zone of interest is the European Union in order to have a better insight about the trust crisis that appears to be stronger in the recent years, a crisis that has shown its consequences with the Euroscepticism movement, the presence of Eurosceptic political parties and the Brexit case.

Considering the Eurozone the dynamics of populism that we have described before , dynamics that “*considers society to be ultimately separated into two homogenous and antagonistic groups, the pure people versus the corrupt elite*” (ed. Mudde Ch.1, p.6) can be transcribed with the European union and its institutions as the elite, the part of the society that is obtaining the most from the actual situation and the pure people can be considered as the people of the different States belonging to the European Union; the traits of populism can be traced in such situation since the Euroscepticism movements have the ultimate goal to de-empower the European Union, they go against their policies by rejecting them and they consider the belonging to the European Union, with the consequent adoption of its policies, as the main cause of the economic and financial crisis or of the different social problems that a society has to face. The European Union and its representatives are seen as a constraints, as a limit to the national power of the single States, as a restriction to the monetary and fiscal policy of the Member States, they are considered in a negative way from many points of view; as we may recall from the definition of populism provided in chapter 1 (ed. Ch.1, p.6, “*politics should be an expression of the general will of the people*”) the European Union can be considered in this particular case as the “Elite” actor since it represents the obstacle to the acquisition of the sovereignty by the Member States and to the expression of the true democracy that represent the true will of the people.

Given these premises the populism in Europe can see its trait of duality between its antagonistic groups since the European Union takes the role of sole legislator with the national parliaments acting as mere intermediaries and the people take the role of the “suppressed”, forced to accept such situation.

Ideally, a way to measure the rise of populism in the Euro zone would be to consider the spectrum of political parties that can be classified as populist in the different countries that belong to the European Union and analyse their results in terms of voters’ share, growth and relative importance in the national (Or European) political arena; it could be surely possible but the restriction imposed by the time intervals between the different elections wouldn’t have produced a consistent number of data in order to perform an analysis. In order to analyse such condition, it was considered a trait that can characterizes the populist parties in terms of ideas or in terms of what they represent to their potential voters and, in this case, the trait considered is the trust toward the European Union, a proxy to analyse the populism; the lower the trust toward the European Union the greater should be the support to populist platforms.

3.2 DATA

The dataset is a panel containing the data of the attitude toward the European Union, the data of the Gini index and other economic variables like the GDP per capita, the unemployment rate and the at-risk poverty rate for 15 European countries NUTS 0 (Austria, Belgium, Denmark, Germany, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Sweden and U.K.) between 2001 and 2015.

3.2.1 Trust Toward the European Union

There are many political parties across the European Union and their classification as populist parties would have been more difficult if it would be decided to consider for their classification every single characteristic that make a party a populist one and for this reason it was decided to consider one common trait that is the resentment against the European Union since a populist party in the Eurozone, according to the definition provided before has to be counterposed to an “enemy”, the so called Elite and in the Eurozone the European Union takes this role.

Considering the trust toward the European Union as a proxy for measuring the rise, the growth and the relative importance of populism in Europe, the aim of this chapter is to consider whether this phenomenon has an economic interpretation or not.

The data utilized in order to measure the trust toward the European Union were retrieved from the Standard Eurobarometer surveys that are published twice a year, during April-May and during September-October and, for this specific case, from 2001 to 2015; in the standard Eurobarometer the question that was posed to the respondents was:

“I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust or not to trust it. – The European Union”;

for the specific case of this study it was utilized the answer “I tend to trust the European Union” as the dependent variable and as the proxy in order to measure the level of populism, as it was explained before. (Standard Eurobarometer, 2019)

3.2.2 The Gini Index

In order to find an economic explanation behind the European trust crisis it was utilized the Gini index which is a measure of the inequality within a country; a measure of the inequality was chosen since it represents a situation that cause resentment and tension toward the institutions and those who govern.

To understand the Gini index properly it is necessary to make the correct premises; the Gini index is a number which is derived from the line of distribution and from the Lorenz curve. On a cartesian plane the former is a line at 45° angle that shows an income distribution which is perfectly equal (the line A in the graph below) while the latter represents the actual distribution of income (line B in the graph below) and it is ultimately a function that explain how the cumulative percentage of the rentiers explain the cumulative percentage of the national income, that is ultimately how the income is distributed among the population. (2012, Dizionario di Economia e Finanza)

The Gini index is the ratio of the area comprised between the line of equality and the Lorenz curve and the whole area subtended to the line of distribution; by measuring this ratio it is possible to derive how the income is distributed among the population with a minimum value of 0 % (or 0 for the Gini coefficient) which represents the perfect equality and a maximum value of 100% (or 1 for the Gini coefficient) which represents maximum inequality.

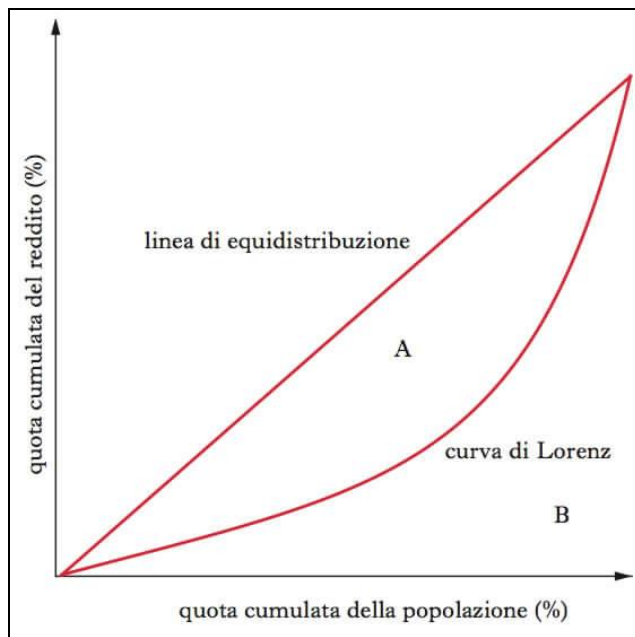


Figure 20: (2012, Dizionario di Economia e Finanza)

Here some visual representations of the potential range of values that the Gini index can have:

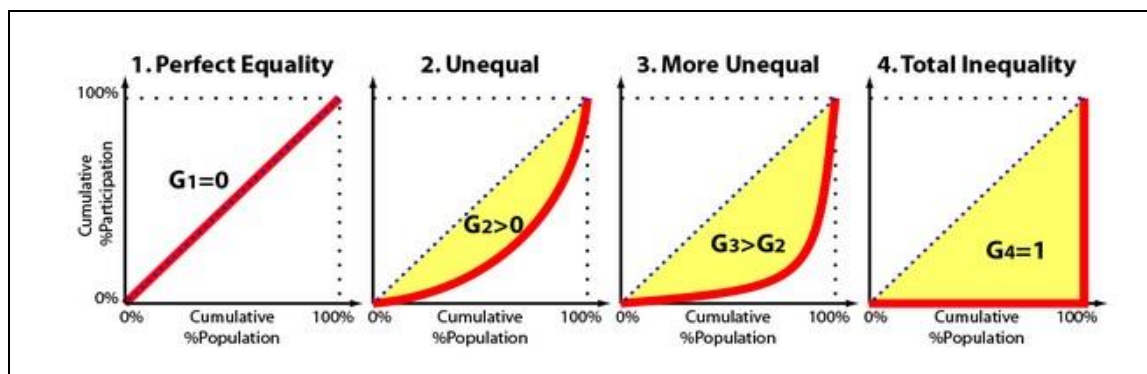


Figure 21: (Juhi, 2019)

It is important to say that the Gini index is a good measure since it provides an easy to interpret, cross-country variable but it does not provide an explanation about the wealth of a nation and about the absolute level of income of its population; furthermore, the Gini index presents additional biases such as:

- two countries having the same Gini index but different income distribution;
- a low value of the Gini index but an extremely high-income inequality;
- the impossibility to discern the effects of structural changes in the population.

The data for the Gini index were retrieved from the Eurostat database for the above mentioned 15 countries for the period that goes from 2001 to 2015; that variable is the Gini coefficient (converted in the Gini index for a better interpretation) of equivalised disposable income that is the income of a household after tax and other deductions, available for saving or spending

and divided by the number of equalised members of the household after their conversion into equivalised adults; such measure is provided once a year.(European commission, 2019)

3.2.3 Additional Data

Finally, in order to add controls to the analysis additional variables were included in the model and such variables were the GDP per capita, the unemployment rate and the at-risk poverty rate; the data for the controls were retrieved as well from the Eurostat database for the same above mentioned countries and for the same time intervals; they were selected because they can potentially distort the result since they represent additional factors that have the potentiality to undermine the trust toward the European Union, giving therefore the possibility to control for their direct effect and for other related omitted factors.

3.3 EMPIRICAL STRATEGY

The idea is to demonstrate that a certain relationship can be found between the trust toward the European Union and the Gini index; since the value of the Gini index reaches its peak at 100% (in which it equals the maximum inequality) it is expected to have a negative relationship between the trust toward the European Union and the Gini index since the higher the value of the independent variable, the higher the inequality in a country and the lower the support or the trust toward the European Union.

The model utilized for such study is the following:

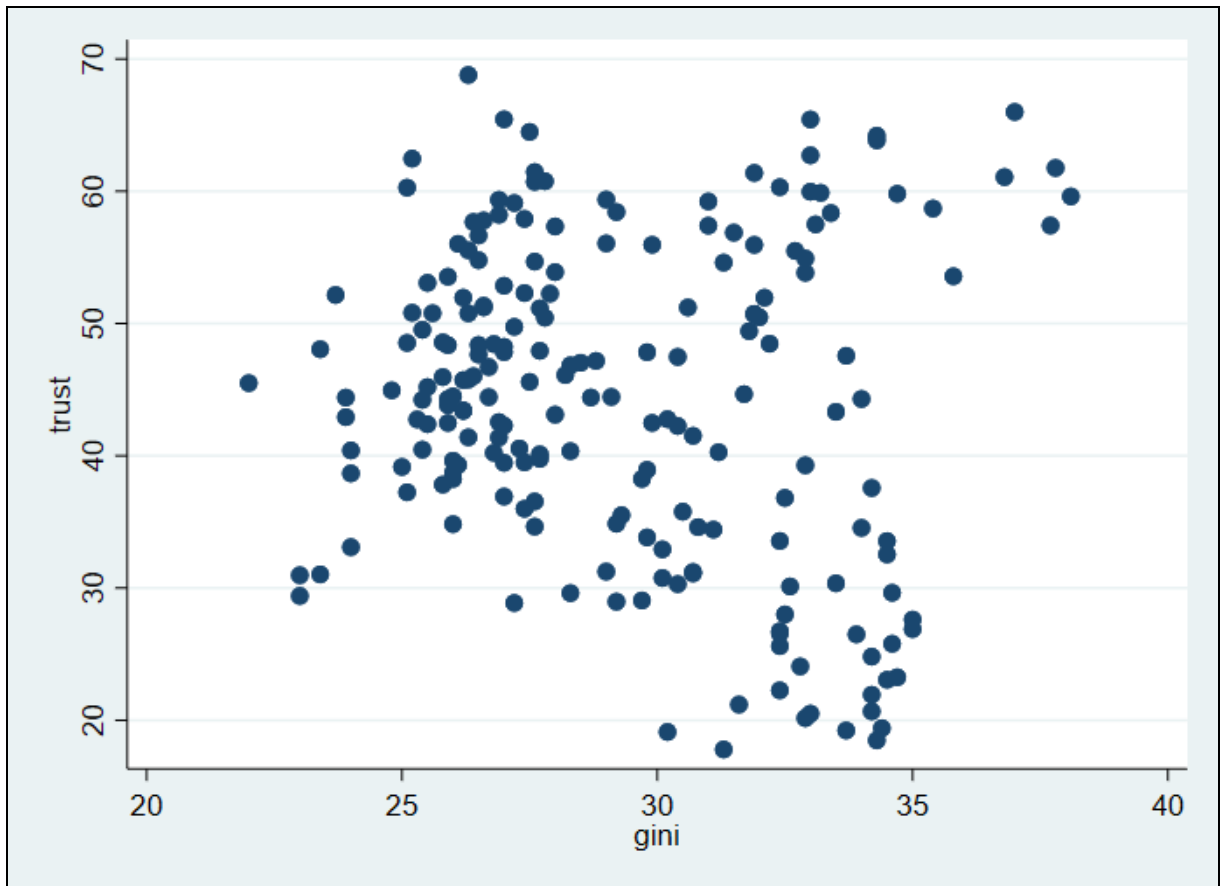
$$Trust_{it} = \alpha + \beta Gini_{it} + X'_{it} + \varepsilon$$

where the *Trust* denotes the mean attitude toward the EU in country “i” at time “t” , *Gini* is the value of the Gini index in country “i” at time “t”, β is the coefficient of interest; X'_{it} is the vector for the control variables (Gdp per capita, unemployment level, poverty rate) that will be successively included and ε is the error term: this shows only the general model since further on in the analysis, time dummy, country dummy and interaction terms will be added as well.

3.4 MAIN RESULTS

Eurosceptic attitudes or, in general, a negative sentiment toward the European Union can have detrimental consequences on the EU stability and can also provide an explanation for the rise of populist platforms.

As we can see from the scatter plot below it appears to be a lack of relationship of any case between the level of trust and the Gini index in the time interval considered:

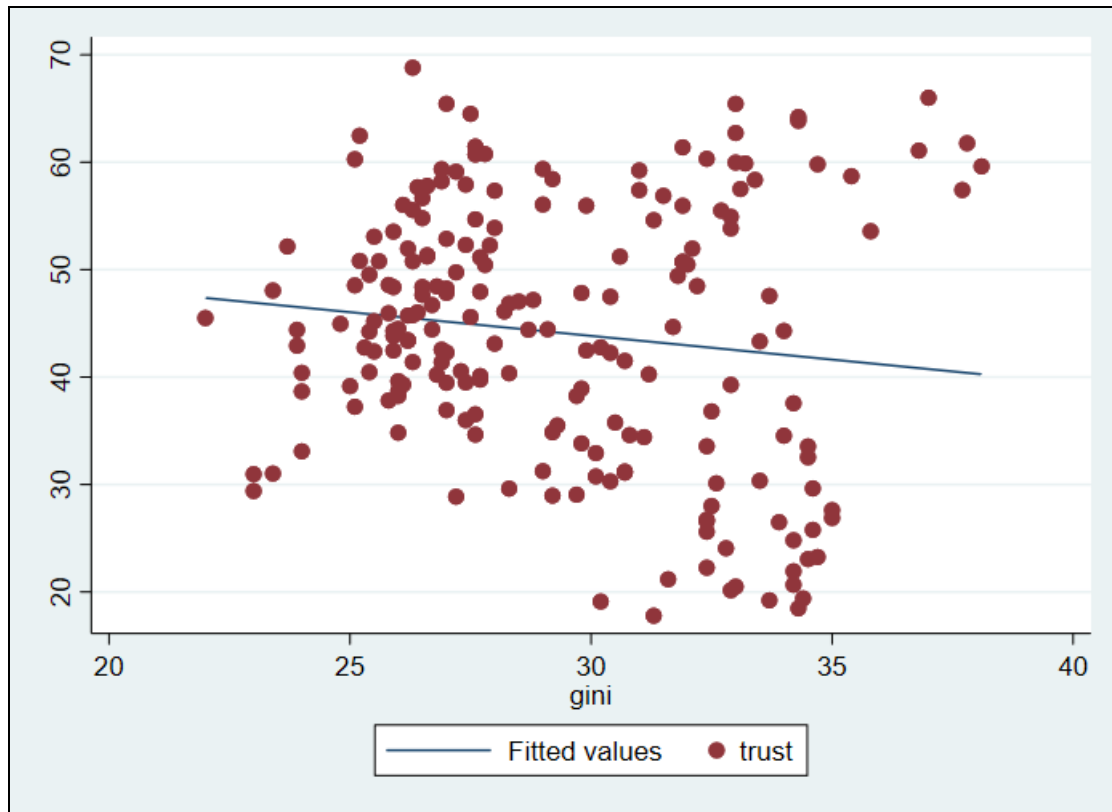


Indeed, if it is tried to run a regression analysis on this data in order to see if a potential relationship is present between the two variables the results are the following:

Linear regression						Number of obs	=	204
						F(1, 202)	=	2.44
						Prob > F	=	0.1202
						R-squared	=	0.0168
						Root MSE	=	11.893
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]			
gini	-.4413691	.2827991	-1.56	0.120	-.9989859	.1162477		
_cons	57.07529	7.905922	7.22	0.000	41.48657	72.664		

As it is possible to see from the Stata output the model proposed does not meet the hypothesis that were made; indeed, it does not explain the relationship since the R-squared value is extremely low (0.0168), the value of the F-test made not possible to confute the null hypothesis (Prob > F = 0.1202) and consequently the model can't be considered as a good one in order to predict the relationship between the variables; moreover, looking at the single explanatory variable, the Gini index, it can be seen that it is not statistically significant

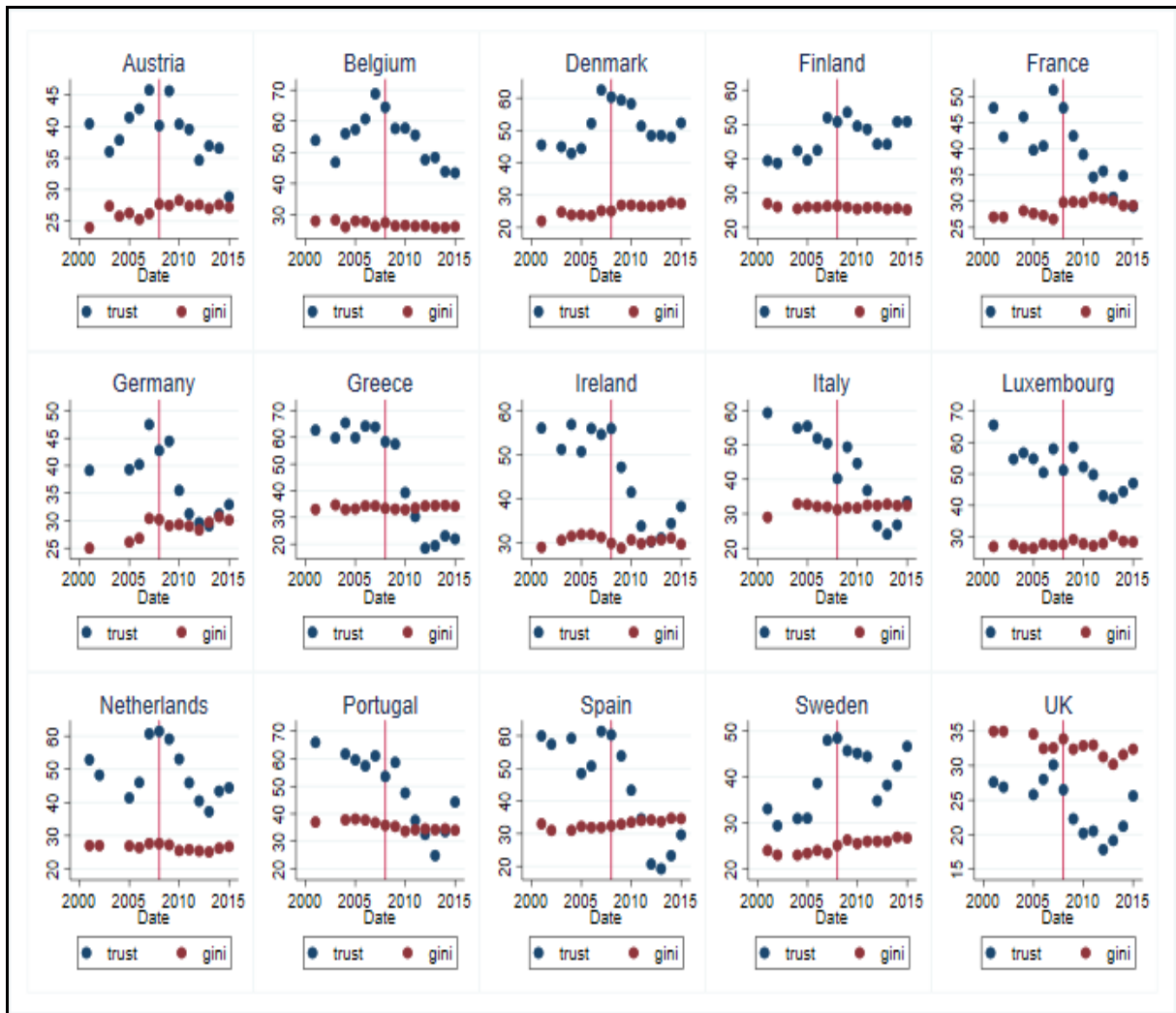
($P > |t| = 0.120$), making us conclude that a relationship between these two variables can't be proven.



The graph above is the same scatter plot presented before between the trust and the Gini index variables with the only addition of the regression line in order to see, from a graphical point of view the low level of prediction that the model presented has.

The years that were taken into consideration for the analysis though, include the beginning and the aftermath of the economic crisis, an event that has had major effect on each member States belonging to the European Union as well as for their population; for the Eurozone the recession it is dated from the first quarter of 2008 to the second quarter of 2009 with a fall of the industrial production of 1.9 percent in May 2008; of course the negative economic effects of the recession were carried on by the single member States in the following years but the year of change, the year that divide the period of interest between pre and post crisis subperiods can be identified with the 2008.

Consequently, the 2008 is taken as the year where a potential break in the relationship between the two variables happens; to follow, are presented the scatter plots of the evolution of the Gini index and the trust toward the European Union throughout the years of interest for each single State, with a graphical remark on the dividing year (2008) in order to see if it is possible to observe a change.



As it is possible to see from the collection of graphs above the value of the Gini index presents a slight increase in many countries while the value of the trust variable change significantly from the 2008; for all the Countries considered there is a negative trend that starts from the 2008 with a decline in trust for every single country. In certain countries the decline is particularly drastic for example in Greece and in Germany, for others the decline represents a natural continuation for an ongoing trend (like in Italy and in Portugal) but it can be said that the trust toward the European Union started to decline in each single Country without exceptions from 2008.

Because of the drastic change that was seen it was necessary to divide the period of observation into two different subperiods, the first from 2001 to 2007 and the second one from 2009 to 2015, letting the 2008, the year where the crisis starts, excluded from these periods; a new variable was created, the “*recession = year >= 2009*” that considers the years only from the 2009 (included) and, consequently, each variable paired with this one states that the values object of observations are considered from the year 2009 on.

Consequently, it can be said that in the next regressions the first one with *recession==0* refers to the situation from 2001 to 2007 while the second with *recession==1* refers to the situation from 2009 to 2015.

Linear regression				Number of obs	=	99
				F(1, 97)	=	7.58
				Prob > F	=	0.0070
				R-squared	=	0.0886
				Root MSE	=	10.141
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.8069333	.2930433	2.75	0.007	.2253234	1.388543
_cons	25.96804	8.234912	3.15	0.002	9.624024	42.31206

From the Stata output above it is possible to see a sensible improvement compared with the general model presented before with a slight improvement of the R-squared value (from the previous 0.0168 to the actual 0.0886), the F test shows the statistical significance of the model (Prob > F = 0.0070) and the Gini variable is statistically significant but it presents a positive value of the coefficient, a result that is counterintuitive with respect to the hypothesis (0.8069).

Linear regression				Number of obs	=	105
				F(1, 103)	=	38.34
				Prob > F	=	0.0000
				R-squared	=	0.3174
				Root MSE	=	9.2521
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	-2.029033	.3276879	-6.19	0.000	-2.678925	-1.379141
_cons	99.18658	9.329379	10.63	0.000	80.68395	117.6892

The above Stata output is the one that considers the relationship between the trust and the Gini variable after the 2008; it is possible to see that the value of the R-squared has improved significantly (from 0.0168 to the actual 0.3174), the value of the F test shows the significance level of the model and the Gini variable, besides being statistically significant, presents a coefficient value that is negative (-2.029) as it is expected from the initial hypothesis.

For this reason, another regression was conducted, the same of the first model, that is the regression between the trust and the Gini variable from year 2001 to year 2015 but with the

addition of the *Gini_recession* variable, that considers the Gini values from 2009 to 2015 and the *recession* variable that considers the years just mentioned.

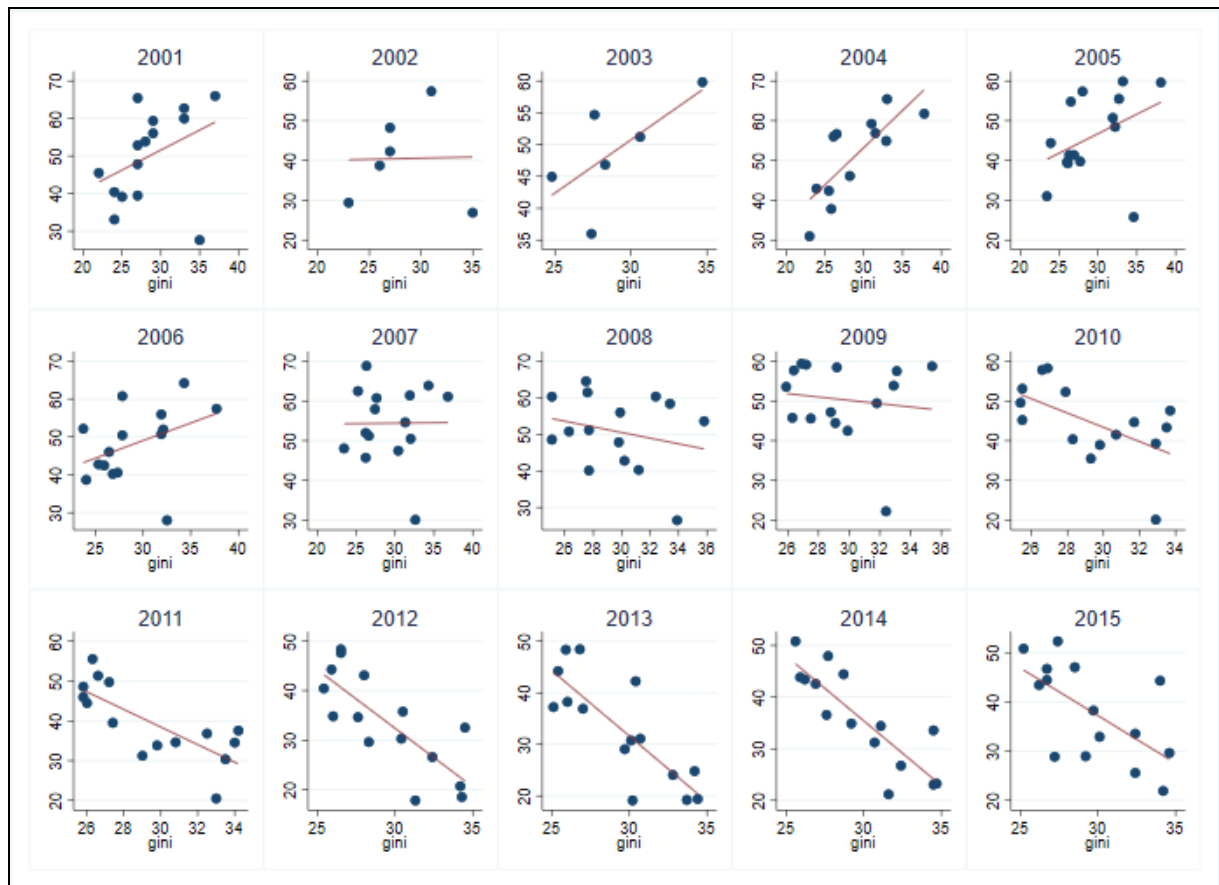
Linear regression		Number of obs	=	204		
		F(3, 200)	=	25.03		
		Prob > F	=	0.0000		
		R-squared	=	0.3533		
		Root MSE	=	9.6936		
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.8069333	.2929545	2.75	0.006	.2292574	1.384609
gini_recession	-2.835966	.439617	-6.45	0.000	-3.702846	-1.969087
recession	73.21853	12.44426	5.88	0.000	48.67973	97.75733
_cons	25.96804	8.232416	3.15	0.002	9.734575	42.20151

As it is possible to see all the three independent variables are statistically significant at a 5% confidence level, with the *Gini_recession* variable that maintains a negative sign of its coefficient; in addition, the R-squared value presents a sensible improvement from the previous general model (from 0.0168 to the actual 0.3533) and also from the model that considers only the recession years (from the 0.3174 to the actual 0.3533), the value of the Root MSE presents a decrease (from the 11.893 of the general model to the actual 9.6936), and finally the F test shows that the model is statistically significant and that can consequently explain the negative relationship between the trust toward the European Union and the Gini Index where a 1%-point increase in the Gini index corresponds to a decrease in the average trust toward the European Union by a value of 2.835 point.

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-2.029033	.3277816	-6.19	0.000	-2.675384	-1.382682

The output presented above shows a test ($Gini + Gini_recession = 0$) that considers the value of the coefficients of the *Gini* and the *Gini_recession* variable in order to see if they present similar effects in magnitude but of different sign and if consequently they cancel one with each other; as it is possible to see the value of the coefficient of such test is negative and statistically significant, showing that the negative effects of the *Gini_recession* variable are stronger than the *Gini* variable and that the ultimate effect we find in the model has a negative sign.

The graph presented below shows the evolution of the regression lines between the *trust* and the *Gini* variable throughout all the years considered: as it is possible to see the relationship is positive from 2001 to 2007 and it starts to show a decline from the year 2008 on, a decline that starts softly and that become more evident and more sharp in the subsequent years, to be more specific from the year 2010.



In addition, starting from the last model utilized with the only exclusion of the “*recession*” variable, several control variables, dummy variables and interaction terms were added in order to substantiate the argument: GDP per capita, unemployment rate and at-risk poverty rate are the control variables that were added to the model; they were selected since they represent economic indicators that can have effects on the dependent variable Y_i and that are correlated with the independent variable X_i .

The dummy variables that were added were the time variables and the country variables in order to absorb the effects of these specific terms and exclude them from the *Gini_recession* variable, to see its pure effect on the regression.

The interaction terms that were added were the control variable multiplied by the recession variable (*gdp_recession*, *u_recession*, *pov_recession*) in order to allow for heterogeneous effects of the controls before and after the 2008 recession; finally, in the last model, country

specific linear splines with a knot in the recession year were added with the “y” and “y_r” variables.

It is worth saying that all the further models proposed will include additional variables to the relationship and, consequently, decrease the variance of the model; an increase of the R-squared value and a decrease of the Root MSE are expected, warning us that a high value in the R-squared or a low value in the Root MSE may not indicate the best effective fit.

With the addition of the time dummy it is possible to see that the *Gini_recession* variable still remains statistically significant, actually it increases its significance level, as well as for the model which improves its fit as it is possible to see from the higher value of the R-squared (0.5081) and the lower value of the Root MSE (8.7429); with regard to the time dummy it is possible to see that from the year 2009 on the single variables for each year are statistically significant at a 5% confidence level while the years from 2002 to 2008 are not statistically significant. The further test performed in order to see the significance level and the negative sign of the coefficients shows that the coefficient of the *Gini_recession* variable is stronger compared with the one of the *Gini* variable; also, the test still shows that it is statistically significant.

Linear regression				Number of obs	=	204
				F(16, 187)	=	16.92
				Prob > F	=	0.0000
				R-squared	=	0.5081
				Root MSE	=	8.7429
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.777866	.2854422	2.73	0.007	.2147653	1.340967
gini_recession	-2.789447	.3821302	-7.30	0.000	-3.543287	-2.035607
year						
2002	-9.236306	5.479355	-1.69	0.094	-20.0456	1.572988
2003	-1.380909	3.96227	-0.35	0.728	-9.197403	6.435584
2004	.733639	3.782922	0.19	0.846	-6.729049	8.196327
2005	-4.569506	3.852269	-1.19	0.237	-12.169	3.029984
2006	-2.240605	3.743382	-0.60	0.550	-9.625291	5.144081
2007	3.849526	3.957795	0.97	0.332	-3.958139	11.65719
2008	.003494	4.163123	0.00	0.999	-8.209229	8.216217
2009	81.91979	10.38302	7.89	0.000	61.43688	102.4027
2010	75.76209	10.78519	7.02	0.000	54.4858	97.03838
2011	71.08676	10.90634	6.52	0.000	49.57149	92.60203
2012	65.10768	10.94111	5.95	0.000	43.52382	86.69155
2013	64.39681	11.02739	5.84	0.000	42.64273	86.15089
2014	68.02026	10.96095	6.21	0.000	46.39725	89.64327
2015	69.71277	10.96907	6.36	0.000	48.07373	91.3518
_cons	27.81308	7.862207	3.54	0.001	12.30306	43.3231

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-2.011581	.2540595	-7.92	0.000	-2.512772	-1.51039

The next model, which introduces the three control variables presents the same characteristic of the previous model; an increase in the R-squared value, a decrease in the value of the Root MSE, the statistical significance of the time dummy from the years 2009 on, and, more important than others, the *Gini_recession* variable maintains its negative sign and its significance level, as well as for the test that compares the coefficients of the *Gini* and the *Gini_recession* variable. Regarding the control variables just added only the GDP per capita is statistically significant at a 5% confidence level while the *Gini* variable loses its significance level.

Linear regression				Number of obs	=	204
				F(19, 184)	=	13.89
				Prob > F	=	0.0000
				R-squared	=	0.5335
				Root MSE	=	8.5834
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.6627878	.4098429	1.62	0.108	-.145808	1.471384
gini_recession	-2.968032	.4614072	-6.43	0.000	-3.878361	-2.057704
year						
2002	-8.803836	5.393348	-1.63	0.104	-19.44459	1.836919
2003	-2.801594	3.549612	-0.79	0.431	-9.804767	4.20158
2004	-.3031123	3.488425	-0.09	0.931	-7.185567	6.579343
2005	-5.311699	3.657964	-1.45	0.148	-12.52864	1.905247
2006	-3.017496	3.596514	-0.84	0.403	-10.1132	4.078212
2007	3.008045	3.879628	0.78	0.439	-4.646231	10.66232
2008	-.8757337	4.123205	-0.21	0.832	-9.010573	7.259105
2009	86.03217	12.12949	7.09	0.000	62.10142	109.9629
2010	79.53987	12.68982	6.27	0.000	54.50361	104.5761
2011	74.69393	12.82982	5.82	0.000	49.38146	100.0064
2012	68.42171	12.76423	5.36	0.000	43.23863	93.60479
2013	67.60717	12.8399	5.27	0.000	42.27482	92.93953
2014	71.19474	12.82718	5.55	0.000	45.88748	96.50201
2015	72.87383	12.77818	5.70	0.000	47.66324	98.08441
gdp	.1560607	.0355382	4.39	0.000	.085946	.2261755
u	25.65859	20.13717	1.27	0.204	-14.07086	65.38804
pov	42.90755	30.92614	1.39	0.167	-18.10788	103.923
_cons	18.17501	8.835164	2.06	0.041	.7437593	35.60627

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-2.305245	.501406	-4.60	0.000	-3.294489	-1.316

The next model introduces the dummy variable for each country and it presents the similar results of before with a sensible increase in the R-squared value (0.8768), a reduction in the value of the Root MSE (4.5884 compared with the previous 8.5834), the statistical significance of the model, with the years that are statistically significant from the 2009 on; the control variables change the significant level, the GDP per capita loses it while the unemployment rate acquires it; the most important thing is that the variable of interest, the *Gini_recession*, remains negative in sign and statistically significant. The test of the coefficient shows that the overall effect of the *Gini* coefficients is negative and statistically significant even if with a lower value in its coefficient.

Linear regression				Number of obs	=	204
				F(33, 170)	=	48.03
				Prob > F	=	0.0000
				R-squared	=	0.8768
				Root MSE	=	4.5884
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.582077	.358827	1.62	0.107	-.1262535	1.290407
gini_recession	-1.729953	.2745409	-6.30	0.000	-2.271901	-1.188004
year						
2002	-5.136218	2.361717	-2.17	0.031	-9.798287	-.4741486
2003	-4.859251	2.180094	-2.23	0.027	-9.162793	-.5557086
2004	-.9048546	2.262998	-0.40	0.690	-5.37205	3.56234
2005	-3.997472	2.250429	-1.78	0.077	-8.439856	.4449112
2006	-2.285359	2.048191	-1.12	0.266	-6.328523	1.757805
2007	2.684738	2.338592	1.15	0.253	-1.931682	7.301157
2008	-.8625824	2.492453	-0.35	0.730	-5.782727	4.057562
2009	52.5955	7.910756	6.65	0.000	36.97953	68.21146
2010	47.15408	7.941588	5.94	0.000	31.47725	62.8309
2011	42.69871	8.000418	5.34	0.000	26.90575	58.49167
2012	38.11927	7.917467	4.81	0.000	22.49005	53.74848
2013	37.96465	7.961737	4.77	0.000	22.24805	53.68126
2014	40.61357	8.246971	4.92	0.000	24.33391	56.89323
2015	41.41667	8.354342	4.96	0.000	24.92506	57.90828
gdp	.3309909	.2860241	1.16	0.249	-.2336255	.8956073
u	-108.3824	18.22628	-5.95	0.000	-144.3614	-72.40343
pov	-2.309591	32.42133	-0.07	0.943	-66.30984	61.69066
cc						
2	18.1071	1.926903	9.40	0.000	14.30336	21.91084
3	10.12998	3.094732	3.27	0.001	4.020923	16.23903
4	9.894594	1.588229	6.23	0.000	6.759403	13.02978
5	7.755782	1.784111	4.35	0.000	4.233917	11.27765
6	2.013187	1.846437	1.09	0.277	-1.631711	5.658084
7	24.40927	4.597819	5.31	0.000	15.33309	33.48544
8	10.01861	2.253482	4.45	0.000	5.570201	14.46702
9	11.86513	3.585063	3.31	0.001	4.788157	18.94211
10	-1.281573	12.58727	-0.10	0.919	-26.12906	23.56592
11	7.783564	1.78658	4.36	0.000	4.256826	11.3103
12	23.8042	5.847725	4.07	0.000	12.26069	35.34771
13	23.61385	3.881998	6.08	0.000	15.95072	31.27698
14	1.94365	2.455284	0.79	0.430	-2.903121	6.790421
15	-11.17665	2.949669	-3.79	0.000	-16.99934	-5.353953
cons	20.69462	12.16462	1.70	0.091	-3.318539	44.70778

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-1.147876	.4880437	-2.35	0.020	-2.111282	-.1844691

The next two models introduce the same control variables of before but with an interaction with the *recession* variable in order to see their effects in the years of the recession in the first model while in the second there is the exclusion of the country dummy.

Linear regression				Number of obs	=	204
				F(36, 167)	=	51.42
				Prob > F	=	0.0000
				R-squared	=	0.8829
				Root MSE	=	4.5141
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.5646173	.3833397	1.47	0.143	-.1921991	1.321434
gini_recession	-1.205566	.4452818	-2.71	0.007	-2.084673	-.3264588
year						
2002	-5.649657	2.351543	-2.40	0.017	-10.29224	-1.007075
2003	-6.150334	2.363723	-2.60	0.010	-10.81696	-1.483704
2004	-2.495304	2.31333	-1.08	0.282	-7.062444	2.071836
2005	-5.238643	2.269732	-2.31	0.022	-9.719708	-.757577
2006	-3.206021	2.03447	-1.58	0.117	-7.222615	.8105736
2007	2.341663	2.215539	1.06	0.292	-2.032412	6.715738
2008	-1.429668	2.466494	-0.58	0.563	-6.299195	3.439859
2009	54.01638	9.481855	5.70	0.000	35.29663	72.73613
2010	48.74216	9.577331	5.09	0.000	29.83391	67.6504
2011	44.26755	9.637578	4.59	0.000	25.24036	63.29474
2012	39.66744	9.559367	4.15	0.000	20.79466	58.54022
2013	39.51233	9.639655	4.10	0.000	20.48104	58.54362
2014	42.01277	9.903114	4.24	0.000	22.46134	61.5642
2015	43.02435	10.11527	4.25	0.000	23.05407	62.99464
gdp	.3260056	.2690183	1.21	0.227	-.2051094	.8571207
u	-13.69695	49.01493	-0.28	0.780	-110.4657	83.07181
pov	51.21755	40.95655	1.25	0.213	-29.64176	132.0769
cc						
2	16.5189	1.956403	8.44	0.000	12.65643	20.38137
3	11.4695	2.857078	4.01	0.000	5.828851	17.11014
4	9.10218	1.809314	5.03	0.000	5.530105	12.67426
5	5.342717	1.936631	2.76	0.006	1.519283	9.16615
6	-.7600118	2.003604	-0.38	0.705	-4.71567	3.195646
7	17.77433	4.65971	3.81	0.000	8.574803	26.97386
8	7.996323	2.592973	3.08	0.002	2.877092	13.11556
9	7.180154	3.633527	1.98	0.050	.0065876	14.35372
10	1.335443	11.76742	0.11	0.910	-21.89663	24.56752
11	9.191342	1.967978	4.67	0.000	5.30602	13.07666
12	17.75784	5.406803	3.28	0.001	7.083346	28.43233
13	17.02992	4.425261	3.85	0.000	8.293258	25.76659
14	2.150069	2.369495	0.91	0.366	-2.527956	6.828093
15	-14.44937	2.9224	-4.94	0.000	-20.21898	-8.679758
gdp_recession	-.1098383	.0644502	-1.70	0.090	-.2370804	.0174038
u_recession	-98.21764	45.31285	-2.17	0.032	-187.6775	-8.757797
pov_recession	-47.09351	50.33571	-0.94	0.351	-146.4698	52.28283
cons	9.610455	13.90055	0.69	0.490	-17.83299	37.0539

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-.6409484	.4958751	-1.29	0.198	-1.61994	.3380433

As it is possible to see from the former one, the model remains statistically significant, it presents an increase in the value of the R-squared and a decrease in the one of the Root MSE with the years from 2009 on remaining statistically significant, as well as for all the countries (with the same exceptions of before); the control variables lose completely their significance level, a situation that doesn't change even when paired with the "recession" variable with the only exception of the unemployment rate. The *Gini_recession* variable remains negative in sign and statistically significant as well while the test of the coefficients maintains the negative sign, but it is not statistically significant under this model.

Linear regression				Number of obs	=	204
				F(22, 181)	=	17.10
				Prob > F	=	0.0000
				R-squared	=	0.5516
				Root MSE	=	8.4842
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	.3174318	.5243278	0.61	0.546	-.7171492	1.352013
gini_recession	-2.098726	.7681506	-2.73	0.007	-3.614407	-.5830439
year						
2002	-9.220444	5.102849	-1.81	0.072	-19.28917	.8482779
2003	-3.614745	3.228073	-1.12	0.264	-9.984241	2.75475
2004	-2.216515	3.296005	-0.67	0.502	-8.72005	4.287021
2005	-6.630339	3.552877	-1.87	0.064	-13.64072	.3800459
2006	-4.038216	3.561405	-1.13	0.258	-11.06543	2.988997
2007	2.475411	3.89379	0.64	0.526	-5.207648	10.15847
2008	-1.452257	4.196462	-0.35	0.730	-9.732535	6.82802
2009	87.42393	14.13193	6.19	0.000	59.53941	115.3084
2010	81.11789	14.48184	5.60	0.000	52.54294	109.6928
2011	76.36473	14.59486	5.23	0.000	47.56679	105.1627
2012	70.30067	14.52556	4.84	0.000	41.63946	98.96188
2013	69.49993	14.56109	4.77	0.000	40.7686	98.23125
2014	73.09159	14.55548	5.02	0.000	44.37135	101.8118
2015	74.75769	14.6115	5.12	0.000	45.92691	103.5885
gdp	.2661807	.0738918	3.60	0.000	.1203806	.4119808
u	131.7755	62.71556	2.10	0.037	8.027825	255.5231
pov	86.38181	45.3847	1.90	0.059	-3.169327	175.9329
gdp_recession	-.1339511	.0842949	-1.59	0.114	-.3002782	.032376
u_recession	-117.2494	66.00354	-1.78	0.077	-247.4847	12.98601
pov_recession	-96.80372	63.07123	-1.53	0.127	-221.2532	27.64573
_cons	11.38109	9.507315	1.20	0.233	-7.378332	30.14052

trust	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
(1)	-1.781294	.5613695	-3.17	0.002	-2.888964	-.6736237

With respect to the latter model (the same but without the country dummy) it is possible to see that the exclusion of the country dummy from the regression decreases the value of the R-squared and increases the one of the Root MSE; the significance level of the time dummy remains unchanged while there is a change in the control variables where the GDP per capita and the unemployment rate regains their significance level at a 5% confidence level, the *Gini_recession* remains statistically significant and negative in sign and the test of the coefficients becomes again statistically significant under this model.

The last model introduces two additional variables the “y” and the “y_r” that indicates country specific linear trend pre and post 2008; with the introduction of these variables there is the addition of country-specific linear splines. These splines are added in time with one single knot placed on the recession year (2008) and with their introduction it is possible to control the regression for potential country-specific break in trust; as we can see the value of the “*Gini_recession*” variable remains negative in sign (-1.60) and, above all, statistically significant ($P > |t| = 0.033$) at a 5% confidence level.

Linear regression			Number of obs = 204			
			F(64, 139) = 76.96			
			Prob > F = 0.0000			
			R-squared = 0.9450			
			Root MSE = 3.3921			
trust	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
gini	1.117459	.4365649	2.56	0.012	.2542925	1.980625
gini_recession	-1.606907	.745548	-2.16	0.033	-3.080988	-.1328263
year						
2002	-1.540846	1.164847	-1.32	0.188	-3.843956	.7622634
2003	-6.013296	1.853759	-3.24	0.001	-9.678506	-2.348085
2004	.3212413	2.026988	0.16	0.874	-3.686474	4.328956
2005	-1.743415	2.341719	-0.74	0.458	-6.373409	2.886579
2006	1.567769	2.654796	0.59	0.556	-3.681235	6.816773
2007	8.521575	3.14799	2.71	0.008	2.29744	14.74571
2008	5.382515	3.66603	1.47	0.144	-1.865877	12.63091
2009	46.65374	28.00694	1.67	0.098	-8.720947	102.0284
2010	42.45523	28.19314	1.51	0.134	-13.28763	98.19808
2011	38.70264	28.26719	1.37	0.173	-17.18662	94.5919
2012	34.88975	28.19634	1.24	0.218	-20.85943	90.63893
2013	35.7265	28.43947	1.26	0.211	-20.50339	91.95638
2014	38.54823	28.55845	1.35	0.179	-17.9169	95.01336
2015	40.65328	28.94711	1.40	0.162	-16.5803	97.88687
gdp	.0281004	.2237833	0.13	0.900	-.414359	.4705597
u	23.89778	66.60121	0.36	0.720	-107.7846	155.5802
pov	2.439875	50.4758	0.05	0.962	-97.35976	102.2395
cc						
2	-1699.839	1645.841	-1.03	0.303	-4953.96	1554.281
3	-2680.527	1195.011	-2.24	0.026	-5043.277	-317.7765
4	-3849.72	1109.113	-3.47	0.001	-6042.634	-1656.806
5	-212.341	1165.285	-0.18	0.856	-2516.316	2091.635
6	546.6835	1080.904	0.51	0.614	-1590.455	2683.823
7	468.6373	1467.408	0.32	0.750	-2432.688	3369.963
8	1089.421	1184.332	0.92	0.359	-1252.215	3431.057
9	3154.625	1686.731	1.87	0.064	-180.3405	6489.591
10	2345.272	1472.691	1.59	0.114	-566.4989	5257.043
11	-1121.776	1354.104	-0.83	0.409	-3799.08	1555.527
12	2352.643	1443.922	1.63	0.106	-502.2484	5207.534
13	1492.04	1379.356	1.08	0.281	-1235.193	4219.273
14	-3714.662	1095.111	-3.39	0.001	-5879.892	-1549.432
15	-1976.421	1405.193	-1.41	0.162	-4754.737	801.894
gdp_recession	.0173836	.4147619	0.04	0.967	-.8026743	.8374415
u_recession	-154.6055	79.96231	-1.93	0.055	-312.7052	3.494198
pov_recession	118.0438	87.02889	1.36	0.177	-54.02774	290.1154
y_1	-.9744249	.7005227	-1.39	0.166	-2.359483	.410633
y_2	-.1188143	.8244912	-0.14	0.886	-1.74898	1.511351
y_3	.368518	.6714747	0.55	0.584	-.9591069	1.696143
y_4	.9466649	.5172991	1.83	0.069	-.0761273	1.969457
y_5	-.8678706	.622617	-1.39	0.166	-2.098895	.3631539
y_6	-1.248312	.6484614	-1.93	0.056	-2.530435	.0338116
y_7	-1.20217	.746678	-1.61	0.110	-2.678486	.2741446
y_8	-1.513698	.7230439	-2.09	0.038	-2.943285	-.084112
y_9	-2.545778	.9020985	-2.82	0.005	-4.329387	-.7621687
y_10	-2.137748	.7849322	-2.72	0.007	-3.689699	-.5857976
y_11	-.4102553	.7074318	-0.58	0.563	-1.808974	.9884631
y_12	-2.144933	.7569356	-2.83	0.005	-3.641529	-.6483366
y_13	-1.714794	.6784898	-2.53	0.013	-3.056289	-.3732989
y_14	.8775132	.5708725	1.54	0.127	-.2512032	2.00623
y_15	0 (omitted)					
yr_1	-.0008666	.0034001	-0.25	0.799	-.0075892	.0058559
yr_2	-.0039051	.0036878	-1.06	0.291	-.0111966	.0033863
yr_3	-.0022068	.0044641	-0.49	0.622	-.011033	.0066194
yr_4	-.0004987	.0031534	-0.16	0.875	-.0067335	.005736
yr_5	.0011328	.0031308	0.36	0.718	-.0050575	.007323
yr_6	-.0007958	.0029808	-0.27	0.790	-.0066893	.0050977
yr_7	-.0021798	.0043198	-0.50	0.615	-.0107209	.0063613
yr_8	.0016313	.0034276	0.48	0.635	-.0051456	.0084082
yr_9	.002856	.0038799	0.74	0.463	-.0048153	.0105272
yr_10	.0011267	.010361	0.11	0.914	-.0193588	.0216121
yr_11	-.0009796	.0045568	-0.21	0.830	-.0099892	.0080301
yr_12	.0065479	.0047383	1.38	0.169	-.0028206	.0159165
yr_13	.0042799	.0039257	1.09	0.278	-.003482	.0120417
yr_14	-.0032382	.0038278	-0.85	0.399	-.0108065	.0043301
yr_15	0 (omitted)					
_cons	1961.426	1398.398	1.40	0.163	-803.4545	4726.306

In order to be more sure about the analysis, the same regressions were performed but utilizing the clustered adjusted standard errors in order to allow for dependence of the error terms within country and over time; for all the models proposed, with the only exception of the model with the interaction term but with the exclusion of the country dummy the normal standard errors are always lower than the standard errors adjusted for clusters and, consequently, it is possible to say that the actual model represents in a good way the relationship between the variables.

3.5 FINDINGS

As it possible to recap from the results presented above all the model proposed has shown that the Gini index during the years of the recession is statistically significant and it is connected with the trust toward the European Union by a negative relationship; when the Gini index increases by 1% point there is a decrease in value in the trust toward the EU. As it is notable to see from the other models proposed the Gini index can't be considered as the sole economic cause to the rise of populism in the Eurozone since, for example, there are time specific and country specific factors that need to be considered; additionally, with the introduction of the control variables and the interaction between them and the "*recession*" variable it is shown that other factors are relevant. Regarding these variables they change constantly their significance level and consequently it is difficult to say if they can explain the relationship in a certain way, for sure it can be said that the at-risk poverty rate remains not statistically significant (with and without the interaction with the recession) in all the models proposed while the GDP per capita and the unemployment rate were statistically significant in certain models and not in others, suggesting us that they had the potentiality to provide an interpretation to the decline of trust toward the EU but their continuous changes suggest that maybe the linear model is not suitable for them or maybe they are not the right variables for the models. What really matters though, is that the variable of interest of this study, that is the Gini index, remains statistically significant throughout all the models proposed and it explains the relationship the way it is expected from the hypothesis.

3.6 LIMITATION

Of course the models here proposed presents some important limitation of many nature; first of all, they were models constructed specifically in order to see the statistically significance of one single variable, the Gini index, where the other economic variables were added in order to substantiate the argument; the model proposed was a model that considers only the effect of the economic variables in the relationship and furthermore only a few economic variables were

included, a factor that needs to be considered especially in a complex phenomenon like the one of populism.

As it was seen from the review of the literature that was done before the rise of populism is a complex multi-faced phenomenon that can't be connected with just one single cause since its explanation can be found in economic variables as well as in cultural, social and political factors; the sole income inequality can't be considered as the sole cause to the rise of populism but it can be said that it plays its part in explaining it.

CONCLUSION

To sum up, populism is a phenomenon that has been seen rising in the recent years and, consequently, the study of its causes, in order to have a greater understanding, is extremely important; as it was seen before the populism is a complex phenomenon that possesses different sides and that can't be explained in a single way.

The populism in the Eurozone may take the form of the Euroscepticism movement since, as it was said before, the European Union and its institutions play the role of the so called Elite that the populist movements propose to eradicate; by looking specifically at the data here proposed it is possible to say that the populism (which is measured through the trust toward the European Union proxy) may find one of its causes in the Gini index. This means that a greater level of income inequality within a country undermines the trust toward the European Union since it is considered as the sole legislator of the area, the institution that de-empowers the national governments and that threatens the wealth of the individuals creating room for populist parties to rise; this is converted into a fall of trust toward the European Union, the proxy here utilized in order to measure the potential causes to the rise of populism.

As it was said before the rise of such complex phenomenon can't be confined with just one single interpretation, there are many factors that play their role in such dynamics but for sure it can be said that a rising situation of income inequality in a country makes the people less secure about the role and the effectiveness of the European institution; besides its limitation this study can be considered as a starting point for future studies in order to provide a better insight of such phenomenon.

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